



**ASX Limited 2012 Annual General Meeting
5 October 2012
Chaired by Rick Holliday-Smith
Edited Transcript of the ASX Limited 2012 AGM Q & A**

Item 1

Carol Limmer, Australian Shareholders' Association

Good morning, Mr Chairman, my name is Carol Limmer and I represent the Australian Shareholders' Association holding about 400,000 votes of about 300 shareholders.

A few comments, financially generally. The dividends and share price are somewhat disappointing for shareholders although, I understand to some degree the result is because of a sluggish market and do acknowledge some progress is being made with new products, for example, in the derivatives area. I would like to commend ASX in that I considered the layout and content of the Annual Report was user friendly and that's of course within the constraints of what companies must do to meet all their legal, regulatory and accounting standards. I also acknowledge the overall good corporate governance, and the education and training that's done for the shareholders and also commend the ASX on the new book build tool that is being introduced. I have just got one question - the reason for political donations. I see the amounts are not significant and that the ASX has given the same amounts to both major parties but it's more a question of principle in relation to that. Thank you.

Rick Holliday-Smith, Chairman, ASX Limited

Thank you for your comments. I am glad you like the new Annual Report layout and its hopefully iPad and computer-friendly structure. The amount in relation to political donations is immaterial in amount. Our view is a small amount paid to both parties equally is part of our relationship-building program. It doesn't cost a lot to us, it is to them seen as important whereas nothing would be a much more serious negative. So our view taken as a whole it is the right thing to do and we don't differentiate and we treat them exactly the same. [Refer page 24 of the Annual Report].

Paul Fanning, shareholder

Paul Fanning, shareholder, Melbourne. Thank you Rick and thank you Elmer for your reports. I always find them very insightful and generally a true and accurate reflection of the rugged market conditions that we have had in the last 12 months and the initiatives that ASX will probably take in the next 12 months. I have two questions.

One is the RBA recently gave a positive report card on the ASX and the financial processes in place. There was an area that perhaps needed addressing and improving, being operational issues. I would like a comment from either Elmer or Rick on what the operational issues are. Obviously they were worth commenting on by the RBA and I think we probably should have some insight into what those issues are. The second issue is, I note particularly from Elmer's report, that the different parts of the ASX business have done reasonably well and other parts have gone backwards a little given the financial constraints in the last 12 months. ASX derives a significant income from IRESS Limited as a shareholder of about 18% or 18.4%. My question is, given that the ASX is to become much more competitive in the financial sector, I wonder if there would be some synergies in making further moves into

working closely with IRESS and/or some joint arrangements or merger arrangements or whatever they may be. Thank you.

Rick Holliday-Smith, Chairman, ASX Limited

I will get Elmer to discuss the operations and the RBA. I have to say when you get people of that status looking over you they are always trying to find something to comment on so I think we got a very good bill of health from them. But is there anything you would like to comment on the operational issue, Elmer?

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

Thank you for your question. As you know we are regulated by both ASIC and the RBA. The RBA is particularly important because our systems are important for the financial stability of the country and so they take a very keen interest in it.

We are delighted with the report. It gave us a clean bill of health. There were a couple of operational issues in Austraclear and connectivity to that which they commented on. Those are being addressed as part of our normal course of business although there is not a material impact on the operation of the business. It is, of course, one of the benefits of having regulators on the ground that regulate us right here that they can literally walk down the road and have a conversation with us about our systems. I would be surprised if there is not something we should improve upon every year but thankfully none of these are material matters and our new Head of Technology is addressing them as speedily as he possibly can. We don't expect that comment to be made next year.

Rick Holliday-Smith, Chairman, ASX Limited

As for your second question, which is IRESS, we have held a stake in IRESS for a long time. We review that stake every year and we consider what our relationship could or should be with IRESS. We like the stake we hold but we don't want it to be much more than where it is at the moment. It is seen as a long-term investment and probably a strategic holding. At the same time we try to do whatever we can with IRESS where there is alignment. We like holding the stake and it is something we watch very closely.

Item 3(e)

Joyce Yong, shareholder

Thank you Mr Chair. Joyce Yong, shareholder. As Heather is new to the board may we hear directly from her on how she intends to fulfil her duties?

Rick Holliday-Smith, Chairman, ASX Limited

Heather, are you able to make some comments?

Heather Ridout, Director, ASX Limited

Thank you very much, Mr Chairman.

I am very pleased to have the confidence of the Board in being invited to be a member of this very august body. I have had extensive experience - 33 years as a director and chief executive of the Australian Industry Group that dealt directly with listed companies for all that period. I helped form AustralianSuper which has the savings of 1.8 million Australians and have been intimately involved in the discussions around that company and how it operates. It's a highly regulated body just like the ASX.

As a member of the Reserve Bank Board, I have a very important link here with the ASX so my personal interest is very evident. My enthusiasm for the task is, I hope, also evident. I have a very strong view in all the roles I have taken that the interests of members are the number one priority. I was a member of AustralianSuper. I am absolutely committed to the 1.8 million Australians who have their savings with that body, so I come with a very strong

view that shareholders and our customers are at the forefront of my considerations and interests so I am looking forward to the role.

I have a lot to learn but I think it's a really fascinating and interesting company that Australia should be very proud to have as part of its financial structure so, thank you very much.

Items 4(a) and (b)

Carol Limmer, Australian Shareholders' Association

Thank you. Carol Limmer from the Australian Shareholders' Association. I first of all acknowledge the positive changes that the ASX has made in relation to remuneration policies generally. However it is noted that despite regular review of policies and practices, the performance measurement period for hurdles remains at just three years and also half of the shares do vest at just the 51st percentile. I also note there is no requirement for the CEO to hold shares once they have vested and there are other major companies who have moved on this issue and, just by way of example, I mention Telstra, Commonwealth Bank and Westpac.

For some people it is difficult to understand that three years is regarded as long-term and this may seem more medium-term in focus, so I would like comment on that and also the process or the reason for the percentage that's chosen in the compound growth hurdle which accounts for 70% of the rights issued.

Rick Holliday-Smith, Chairman, ASX Limited

This vesting issue comes up frequently and there is a marketplace debate about whether it is three years or is it four years. It is reviewed carefully and we consider it every year. Most companies do. There are places like banks which, for obvious reasons, have a long tail of risk and they tend to be going longer and changing the way they work. We are a different business. Our business closes every 24 hours. We mark-to-market every 24 hours. It is a totally different business model. At present, we are comfortable with three years.

At the same time we are not saying that is the right outcome for every entity. ASX reviews it every year. The Board is comfortable where it is at, at the moment.

In relation to the second question, there is a debate around the whole long-term - is it related to earnings per share? Is it related to TSR? There are a lot of views on that. In some ways, the most objective and most difficult one is the earnings per share and we think that is a tougher hurdle and in the end absolutely aligns [with shareholders' interests]. If we are growing at 8% compound a year then the company should be doing pretty well and on-balance, we would probably like to have a little bit of skewing in that direction but it's a matter of judgement. 8% might have been seen to be a low number five years ago but 8% at the moment is a very challenging number. Again, that is reviewed every year.

LTI is an important part of what makes people perform and look to the future. It provides alignment with shareholders and is a good retention tool. For it to work, it has got to be something the recipient thinks is valuable to them. Getting the balance right, particularly in the current market place, is very difficult.

On balance, we have been consistent. It was the same in 2011 and 2012. Next year, there will be another annual review in which we will carefully consider the issues, get external advice and look at what the markets are doing. We will have this discussion with you next year. We are exercising very complicated judgements and it is a very challenging market at present. Everyone wants to get more transparency on this issue. We are trying to give as much transparency as we can without at the same time turning it into a decision of how to run this by proxy by a large group of people when you have got a Board that represents you, that is trying to do a very good job.

Item 6

Joy Llewellyn-Smith, shareholder

Thank you, Chair, my name is Joy Llewellyn Smith. I have been a shareholder for several years now. My question is could you enlighten us on what size Board you would like to work towards and how you will go about assessing people to appoint. Thank you.

Rick Holliday-Smith, Chairman, ASX Limited

As a general comment, I would prefer smaller boards to larger boards. The size of the board that was in place when David Gonski left is actually a good target. We have that size board today. It seems to work fairly well. Over the next 12 to 18 months, there will be changes. I have gone through a process of review with everybody both at main board and with the subsidiary boards.

Everybody agrees that we need to renew and do what is in the best interests of the company. I am going to try over the next 12 to 18 months to add probably between three and five directors onto the various boards.

In some of the subsidiary boards, there is a lot of technical experience and if people are going to leave, we have to have people on those boards who add a lot of oversight and value and the same applies for the main board. I see a period where there could be an increase in the number of people on the board and then, in an orderly way, the numbers returning back again fairly quickly. I see this as an 18 month to two-year program and I see us with three to five new faces over that period of time but coming back to the same numbers we have now.

We have prepared a skills matrix and we have also done an overview of what do we think are the important things moving forward. There are a lot of different issues there that have probably come onto the radar so we are looking at the blend of new people in a slightly different way. There is a targeting of what we think is important. It comes down to availability of the people with the skills that you need and there is a lot of very technical stuff that happens in our business, particularly when you get down to compliance and into clearing and given the regulatory environment that we work in. We have got to take that all into account.

Other business

Shareholder

I think high frequency trading is bankrupting the whole system and confidence in the market is going down. Certainly, on Little Street where I am from, it is eroding the confidence and so, Rick, I wanted to find out, what your personal feeling is towards high frequency trading and also the recommendations you have given to ASIC. Have they changed in the light of what's happened in Germany or what is happening in Germany?

Rick Holliday-Smith, Chairman, ASX Limited

The key point which is interesting that you make is: eroding confidence. It is an issue that we are all concerned about and as a board, we think our public market and markets like ours are markets where the true users of the market, the retail investor, the institutional investor, should be comfortable and want to come to those markets. That's got to be an important part of our long-term proposition.

We have a clear view, as expressed in my remarks earlier about the integrity of the market, the quality of the market and the confidence in the market.

The second point is, high frequency trading involves a whole lot of things. There are market makers and specialists, there are arbitrages and some of those functions are being wrapped into high frequency trading in a way that I don't think is quite right. But there are other parts

of high frequency trading which are wrapped in that are very difficult to understand. It is really important for us to get this right and we and ASIC have to work out how to do that. ASIC has key oversight on some of these issues. I think we share some of your concerns. Maybe not exactly the same but it is certainly up there as a big item.

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

Thank you for your question. I encourage you to pick up our submissions in the foyer that deal with some of the concerns we have around market structure. We have two broad concerns: one deals with high frequency trading and the other one deals with what we call dark pools or dark execution. I realise that sounds like something from Lord of the Rings but it is real and we need to make sure that we stay in control of our markets and give you the confidence you need to invest. At the moment, fund managers and retail investors do not want to invest because they are concerned. Whether justified or not, that should be a concern to us and a concern to the regulators.

High frequency trading is a very popular term being used in the media. It is an umbrella term that covers a variety of trading strategies.

The use of technology and speed per se is not a bad thing.

There are fund managers who use algorithms. There are market makers who provide real liquidity who use speed and technology. Regulators around the world are looking for measures that will reduce the impact from more damaging trading strategies and yet protect the things that are valuable to our market such as market makers and people who provide real liquidity.

There are broadly two ways regulators go about this. You mentioned the German example and this is somewhere where ASIC is also taking an interest. If high frequency traders are in and out of the market at very high speeds and put a lot of orders and cancellations into the market, why not make it less profitable. This is one of the ways regulators can turn down the dial and make algorithmic trading less profitable and, therefore, less aggressive.

In Australia we are already in a better position than markets such as the United States. I believe some of the characteristics of the US markets have got out of control. They are not in place here so, we are in a better place in Australia than many overseas markets.

So, one way is to make it less profitable and then the activity reduces as part of normal business practice. Other regulators are looking at whether they should actually reduce the speed of trading so maybe an order should rest in the market for a minimum amount of time before you can pull it out again. Our instinct is that working on the economics is a very wise thing to do and we believe that ASIC has already done a pretty good job on that but there is clearly more to do to make sure we manage your concerns and we have frequent discussions with the regulators about how to do that and provide the best insight we can give.

We are very concerned about dark pools and we have put some very simple measures to the regulators that we believe can be implemented right now, so that's an easier one to tackle than high frequency trading. We think we should address that now and continue to work on high frequency trading. We share some of your concerns. We are active in our contributions to the regulators. We should also recognise that speed and technology are not necessarily bad things. The trading strategies are the ones that do the damage and so we need to make sure we continue to manage that. It's in the hands of the regulators. We are contributing to the debate just like any other exchange and bank around the world.

Rick Holliday-Smith, Chairman, ASX Limited

To the extent that you read what we say and to the extent that you agree or disagree or have other thoughts, making those thoughts known in this process is a valuable thing to do. I encourage everybody who has a view on this, many of whom normally stay silent, to express it and express it here but go the next step and say OK, what are the things that you need to say that concern you. Make your points known is what I would encourage everyone to do.

Angus Richards, shareholder

On the question of high frequency trading, to what extent does ASX's growth in technical services revenue reflect support for high frequency trading through co-location of facilities?

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

Surprisingly, perhaps, it's actually a relatively small amount. Our technical services business serves a very wide range of clients and it services our equities businesses as well as our derivatives business. A third of the company is derivatives and so high frequency trading in equities is a relatively modest part of our technical services business but it is part of it, and we are making revenues out of that activity.

We have no choice but to do that of course because we didn't design the market structure that we have today. The reality is, if we had thought about what we have created a couple of years ago, we probably wouldn't have created it but we are where we are and we now need to deal with the consequences. Some of the things that we are talking to regulators about may in fact hurt some of those revenues because if high frequency trading goes down because of the measures we have just discussed, they may be less willing to pay for our services too. We think that's OK because in the long run we need to make sure that the market is there for long-term investors like yourselves, fund managers and the superannuation sector that have a long-term interest in our market. Some of the measures might hurt us a bit but that's OK. In the meantime, we have to work in the structure that has been created and that's just a reality of life. It's not a very big number today.

Rick Holliday-Smith, Chairman, ASX Limited

When you look at how you respond to competition you have to try to understand what facilities the competition actually offers. Then you have got to make sure that you are not blindsided by not having them. So, a lot of what we have had to do is actually say what is Chi-X who is coming into the market actually offering and, a lot of the things that are part of what's going on here is this competitive landscape where everyone has to compete with each other is adding a whole lot of things which haven't actually been there before and it's one of the unintended complications. There are things, there are models and structures and systems that have been built overseas that can immediately just be applied and so if they are all waiting at the doorstep to come into this new environment and sort of do whatever they do and Chi-X in its competitive system capability has a lot of the things that are needed there and we just can't give the market to Chi-X. We have generated some benefit. We would give up the benefit to ensure the quality and the integrity of the market because that's actually much more important over the next five to 10 years to our business.

Bob McGregor Juvem Investments (shareholder)

Bob McGregor, Juvem Investments, long-term holder. I would just like to make a few comments. High frequency trading, algorithmic trading, flash crashes - every day I look at the broker through whom I do some business in the stock market and I notice against ASX every day they lodge an enquiry, enquiry. 99.9% of the time there is an enquiry against the ASX's share price. If I look at other companies, I see exactly the same thing, enquiry. I don't know what the result of all these enquiries are but it appears to me that the front-running of all shares these days, once they got rid of the short-selling uptick rule, has led to a situation where you can destroy anything.

Now about a month or so ago there was a trade in ASX, I think for 7 or 8 or 900 shares trading at \$27.84, I think if my memory serves me correctly, which has never been corrected. If you look at the chart you see this huge dip down to \$27.84 and then the next trade is at \$30.40. There has to be an explanation of why this is happening. Of course if you had a short-selling uptick rule, that couldn't happen and if you brought that back and you introduced Glass-Steagall, I should imagine that these things would change markedly again and start to instil confidence.

The reason we saw the cash markets decline is because people are lacking confidence. I have a lot of friends still in the network. They won't have a bar of the markets anymore. OK they are probably a bit old fashioned like I am and they like to see a bit of transparency and integrity and everything else which they don't perceive to be happening and I just think that ASIC is doing a dreadful job.

I think the fact that they wanted to let additional clearers here, there and everywhere which is going to fracture the market even more, layer upon layer of more costs on the brokers and so for everybody it's a vicious circle. See the whole thing, instead of increasing liquidity it's decreasing liquidity. Now we see every day the stock market is going down on less and less turnover. Chi-X said we are going to increase the turnover. We are going to increase the liquidity. The opposite is happening. Now these are the problems I perceive for the exchanges going forward. These flash crashes can be engineered by the people who vote-stuff the market, they pull them out and put them back in, I suspect that what they should be thinking about doing is bringing back an order fee, \$5 on every order like they used to have. That will stop the high frequency traders because let's face it I think they said the longest any trade lasts is about 8 seconds. Now where is the liquidity in that?

Rick Holliday-Smith, Chairman, ASX Limited

OK, thank you, Bob. Again I would commend our submissions to you and suggest you can reinforce some of that. ASIC is genuinely trying to work out what to do in complicated circumstances. Things need to be done and if you look at what we are saying, that the integrity of the market moving forward and our public market being the place where we want most investors and retail institutions to feel comfortable coming, is really important to the long-term proposition for us as we move forward. Getting this right as quickly as possible is really important to us so, everybody, please join the commentary.

Paul Fanning, shareholder

Paul Fanning again. Rick, this is an issue which probably alerted my interest. Elmer had an interview with one of the national papers and there were some quite insightful things mentioned in there and again I am touching again on dark pool trading and there are suggestions made that dark pool trading could be taking about 25% out of the so called lit market. Now this clearly is a concern on a revenue front and I am sure it is for all the ASX directors. I would like to know how this compares with perhaps overseas indices on the lit market versus dark pools and what strategies have been taken by overseas markets and what could be learnt from that by ASX and implemented.

Rick Holliday-Smith, Chairman, ASX Limited

I will pass that question to Elmer. These things are critical and if you go over a tilt point, the car has run away without the brakes on and it's very hard to retrieve. We are not actually over the tilt point but there is a serious concern that it isn't far away. So that's a really big concern we have which is why we are being extremely vocal.

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

A dark pool is effectively a private exchange that's run usually by an investment bank or broker where they match trades inside their own business - using their own technology effectively.

In Australia, we estimate that probably in the order of 25 to 30% of the market is now dark. What that means is trades no longer transacted through either Chi-X or ourselves. Chi-X and ASX are lit exchanges. We call them that as opposed to dark exchanges. A lit exchange is an exchange that everybody has access to on the same terms. The rules are transparent, the commercial arrangements are transparent and it's overseen by a regulator.

A dark pool is a private exchange. Today for the top stocks in our country you can trade in about 18 different places so if you want to buy or sell BHP or Telstra as an investor, you have two lit exchanges to choose from – Chi-X and ASX of course, and you have about 16 or so dark pools that you can go to.

We think this is very concerning because dark pools fragment the market. They take a single pot of liquidity and spread it across different markets. Now we all know from finance theory or from going to any marketplace in fact that the most efficient marketplace is a marketplace where everybody gets together to trade on the one platform and in the one market. There has been some very good research done by Alex Frino of the University of Sydney that shows that if you take a little liquidity away from the one place where everybody can trade, the spreads go up and those changes can be quite material. We are concerned about that.

You asked the question about other markets. It's a bit hard to say but in the United States it's possible that half the market is traded away from the exchange. In fact, what's more concerning in some overseas markets is that retail trades are now being internalised as well by brokers which means that your retail transaction is no longer getting to the exchange.

In fact, if you look at the New York Stock Exchange, companies listed on the New York Stock Exchange, almost none of the retail trades actually still go through the exchange for companies listed on the New York Stock Exchange. I don't know about you but that doesn't sound right to me and we've been quite loud about this.

ASIC and Minister Shorten are looking at what to do about this because everybody recognises that if the one marketplace gets fragmented, it might start to impact the way companies raise capital and so forth. We have put some very simple proposals to ASIC and the Minister that would address this. Those proposals are not trying to eliminate dark pools because we believe there is a role for dark pools for very large transactions. Very large transactions that are thrown into the marketplace can actually lead to problematic signals and so those being transacted away from the market makes sense. Some of you might know it as the old upstairs market. We think there is a role for that. Most of the other trades should go through an exchange, either ourselves or Chi-X, by all means if that's where you want to go, but it should go through an exchange.

Our submission papers to ASIC setting out what we think those measures should be are available upstairs. The measures are relatively simple and can be implemented immediately. It is not difficult but of course it has to happen and what we have made clear in that submission is that we think the time for consultation is over. We should just implement the measures but of course we are not the ones doing that.

I believe that both the Minister and ASIC are concerned about this and want to do something about it but, of course, now we are in the argument about what's in the interest of intermediaries, the exchange, the end consumer. The reason we are talking to you about this and the reason Rick is encouraging you to take those papers and communicate with government and with ASIC is that we are having a conversation amongst ourselves here and we are agreeing with each other. We need your voice to be heard elsewhere because this can't be a conversation between ASIC and the Minister and the exchange and an investment bank. It's got to be about the end investor and fund managers and retail investors, who have been silent in this process, and we are quite happy that fund managers are becoming a lot

more vocal now because they are starting to see it impact their business and that can't happen, so please look at the submissions.

It is simple. The measures can be implemented now but of course it has to happen and we are looking to the government, as I said in my speech, to go ahead and actually get it done. It's not difficult to fix and then it will get off the front page and you can sleep easier. That's what we have to do.

Rick Holliday-Smith, Chairman, ASX Limited

I encourage you to look at it. Obviously you can look at it as an ASX shareholder because it is important but I think you should also look at it as a shareholder in lots of companies using a market. This isn't just about us. This is about the long-term integrity of this market and protecting its position. I encourage you all to engage to the extent that you feel comfortable and there is a lot of written material to help you.

Shareholder

Chair, if you could indicate to the meeting which is the appropriate - there might be more than one - Minister for those who want to take up that idea. I certainly had the chance this morning to read the documents that were put out, but if we don't know exactly where to direct our concerns, it could be lost.

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

The regulator is ASIC and currently the responsible Minister is Bill Shorten. Both are highly engaged on this topic so, be firm, but kind.

Rick Holliday-Smith, Chairman, ASX Limited

The more people they hear who are concerned, the easier it will be for them to make a decision. We are sort of stuck in this. There are things that they should just do. We have to get them over the line to do it. I think they know intuitively what the right thing to do is. We have got to make them actually do it.

Boris Ganke, shareholder

Mr Chairman, my name is Boris Ganke. With my grey hair I have been around the market for about half a century. In view of these dark pools and in view of what most, including the CEO here have said and yourself, would it be worth considering to bring back the good old fashioned rule where the extra brokers who are selling have to be identified at the time? Because that used to exist for as long as I remember except for the last several years in my language. That might identify somebody even with their algorithmic trade if they put on an order or whatever it is, 50,000 BHP shares and remove it 30 seconds later. If they do that five times a day you might be able to identify whether these bids are genuine or not.

Rick Holliday-Smith, Chairman, ASX Limited

I think they do it more often than that.

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

We have looked at that. Sadly we don't think that's going to make a big difference to either dark execution or high frequency trading. That is something we have carefully considered. It also hasn't been a topic of conversation with the regulators as a measure because you have to realise that some of these guys sit behind the brokers and the way they transact and of course dark pools are completely invisible until the trade is actually done so they only get reported to the exchange. I have sympathy for your argument but unfortunately that is not going to make a material difference in this case.

Shareholder

Just one comment on individuals making approaches. From my attendance at several ASIC meetings, I think they pay lip service to the retail side of the market and they listen more

clearly to AFMA which represents the major investment banks which after all, and governments seem to go to the same bodies and talk to them rather than talking to the small operators in the market. It seems incredible that the Goldman Sachs and the others of the world who created all these problems in the US, our governments listen to them to see what they should be doing and I don't think IOSCO should be the only place where decisions are made about what our government does. But my question is on cost recovery. ASIC is spending \$40 million on a new surveillance system. I think the thing that has to be made clear in that cost recovery from the industry and brokers is - are dark pools included in that recovery or do they escape the fees by being in dark pools?

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

I am actually looking at the person [at ASX] who deals with this. The answer is we don't know but we think it makes sense.

Shareholder

Because under that system obviously it's a big incentive for them to put every trade they can through their dark pools. Secondly, in clearing and settlement, it would appear that we have got someone who wants to come in and do clearing but it's obvious they don't want to do settlement so how does that sort of work in the costing? They can cut the backside out of the clearing side but we are still left with the settlement side, any comments on that?

Rick Holliday-Smith, Chairman, ASX Limited

I think that is probably a true observation. My comment would be we seem to want to have competition no matter what the cost. When you look at the pie that we and Chi-X are fighting over, it's probably gross revenues of \$30 million.

The scale of this is absolutely a nonsense. It's not clear what changes will occur regarding clearing competition but people are caught in the mantra of "competition is good for national interest". Competition may be good, but you've actually got to show there's a real benefit.

You can't show there's been any real benefit in competition in the trading environment. In fact, costs have gone up and everyone is quite surprised. When looking at clearing, the messages we are trying to get to the politicians and the regulators are, firstly, show it's good before you do it, and secondly, if you allow competition, then there needs to be a level playing field. Competitors should be based in Australia so we know what they are doing, the regulator knows what they are doing.

Competitors should be made to have the same infrastructure and obligations that ASX has so there's a level playing field in Australia. By their very nature, competitors are probably going to be large organisations from overseas coming to Australia. The thing that would be absolutely outrageous is to let competitors come from overseas and compete with us from overseas.

Particularly at a time when in the US, all investors are saying we don't want anybody, we don't want to do anything that relates to our US activities unless it is cleared in the United States. It has to be in our territory, it has to be in our borders and we might even be having a conversation that would violate that obvious rule that people are saying is really important.

This is a really important issue. I think at the moment, hopefully, it is going through what I call an intellectual process where everyone is looking at all things that you could consider. It is really important for Australia and our market. As a large accumulator of capital, we deserve to have a sophisticated market that can do lots of things.

If we are going to have competition, it's got to be fair competition on-shore, exactly the same way that we have to operate. And to me, I am not sure competition in clearing even makes

sense. The second point is if you are going to have competition it's got to be a level playing field.

We have to get those two issues front of mind and really get some momentum into them because they are really important. The clearing fees for equity are miniscule as well, so if you let someone go to Chicago or London or New York where the marketplace is 50 times bigger than us I mean what's it all about? I mean, we may as well join the EU.

Shareholder

My last comment on playing fields. If you are a high frequency trader you don't have to borrow stock to go short because when asked, ASIC says 'well they finish square at the end of the day'. Well why shouldn't we all be able to do that if we finish square at the end of the day I mean these are just examples where ASIC doesn't seem to understand how the market works and I think they are absolutely incompetent.

Rick Holliday-Smith, Chairman, ASX Limited

This is an issue that is very, very important where I sometimes get emotional and Elmer keeps me calm but this is where you've really got to sit down and calmly think about what are the key things you want to say and you have to say them. Although you might feel like you are disenfranchised, I think now is the time when people will actually listen.

If enough people come and talk to them about it, they will actually listen. I think they understand that there are a lot of very complicated vested interests here and they have got to watch closely and carefully who they actually listen to because everyone has got so many different points of view here. They need to protect the retail investor, the long-term user, the natural investor, who is a long way back from this, and we have to get front and centre with some of his thoughts and some of his concerns.

You have to show me how I get a benefit. You have to show me while this makes sense from an Australian public policy point of view. You have to get things out there and there are some good words that will help you if you take our submissions.

I wouldn't be frightened to write the simple comments. I think some very simple things about long-term integrity of the marketplace and they are right in the minds of ASIC and government. ASIC and the government need to see there is a groundswell of people that really do care about it to do some of the right things.

Bob McGregor Juvem Investments (shareholder)

Very briefly, my broker CommSec wrote me recently and said virtually all my trades would be put through a dark pool. So I rang them up and I said, well, I don't agree with this. I would like all my trades to be lit. No, sorry, no internal system to allow this to happen.

So can the ASX list brokers on its website that people can go to where all the trades will be lit so if they trade that you know they are going not through a dark pool but through the lit market?

Rick Holliday-Smith, Chairman, ASX Limited

That sounds extremely strange to me - for someone who is not a regulated official exchange to tell you, as a user, that you are not allowed to go to the exchange. I presume they are doing that with everybody. I mean, that's amazing.

Bob McGregor Juvem Investments (shareholder)

If they can internalise the order, that's what they do. That's what they said.

Rick Holliday-Smith, Chairman, ASX Limited

So they wouldn't? You said "I want to go to the lit market" and they said no?

Bob McGregor Juvem Investments (shareholder)

No, they said "if we have got the match in-house, we will do it in house. So consequently that's the reason for that question.

Revisionist journalists, this became quite a problem - all the stuff we have discussed in the last quarter of an hour - about four to five years ago. It was coming out of the States. It was obvious it was going to hit us here. On various blog sites I would comment and have my say, even to the CEO here. Back in March, I made certain statements that I thought would happen long-term and I have been proved right. It's interesting now that you could not engage a lot of the journalists through blog sites like Business Spectator etc, etc three or five years ago but now they are championing the cause of getting rid of high frequency trading and dark pools and everything else and saying "we are the people that have started this". I mean, when you needed them five years ago they weren't to be seen and all the problems, and I have said this before, come back to, the short selling uptick rule. If you had that in place and jail people for going against it then that's a real deterrent but when you got rid of that and it's not coincidence that on 16 July 2007, everybody go and look it up, the US stock market had the short selling uptick rule repealed and what happened, crash.

And it's never been back there ever since. The only reason it's going back up is because the Federal Reserve is printing innumerate amounts of money and going out and buying shares, rigging the market. Now we all know the Federal Reserve's not really a central bank in the sense that it's owned by the government. No, it's owned by the member banks.

Fortunately we are not in that position here but these are the sorts of things we are going to have to come to grips with and, if we don't, I suspect we are going to have a massive, massive, massive meltdown in the markets of the world, probably within the next six months.

Rick Holliday-Smith, Chairman, ASX Limited

There are a lot of different issues there. I share your concerns for a lot of the global markets generally. Where they'll go, I don't know and we all have different opinions but they aren't looking great. We are lucky that we have gone through the last four or five years better than almost anybody. And we don't want to be risking what we have got here, that has worked, and is stable and serves us well at a time when everybody else is suffering.

We need to preserve our capability, our presence, our strength and it's got to be very reasoned and very rational. We encourage you to provide feedback to be part of getting a wave of commentary to ASIC and to the Minister, to the extent that you truly believe it, the better it is for everybody in this community. And the better it is for everyone in the community, the better it will be for us as well. We have aligned interests here. Even though we benefit from some of these things, we would give a lot of that up in a heartbeat to have a secure, properly structured market with integrity - even with competition, providing it's on a level playing field, because we know we can do a really good job. We just have to make sure those messages get across in a rational way.

Donald Ledger, shareholder

Donald Ledger, just a quick question. I am listening to the discussion about the dark pools and I was just wondering how the cross trades that happen when the market is closed and what does the ASX, how do they view that, is that part of the dark pools or is that something separate?

Elmer Funke Kupper, Managing Director and CEO, ASX Limited

Technically, they are part of what we call dark execution. Anything that doesn't get executed on the lit market when the market is open, we effectively call dark but, of course when we talk about dark execution versus dark pools, those crossings are part of it. We are more concerned about the private exchanges or internalisation of the brokers.

Dark execution is an umbrella term but within that term there are four or five different ways execution can take place. I am very intrigued by the comments made about CommSec. It's the market structure we have today. This is allowed. But we are talking to each other. We should talk to them and we should talk to ASIC and the Minister about it.

Rick Holliday-Smith, Chairman, ASX Limited

Bob, you should write about your experience to ASIC. A fundamental issue is whether that is an exchange. If they are an exchange, then they should be regulated.

Someone shouldn't just be able to say, "well I am going to put this into a room because I have got some customers and flows and I have just created an exchange".

Why are we regulated, why do we go through all the things we have to go through, what's this all about? I don't understand it. I mean that point, even if that was your perception of what happened to you is really important because it just shouldn't be allowed to happen in my view. The more you can do to make that clear to others, that would be great.

Thank you for that. You can see from the press today that this is very topical. Your involvement is welcome.

Transcript ends