



Edited Transcript of ASX HY 2011 Media Briefing

17 February 2011

Robert Elstone - Managing Director and CEO, ASX Ltd:

Welcome to this media briefing to discuss our results for the half-year to December 2010. I extend a welcome to those of you here in Sydney and to those listening in by telephone. This morning we released to the market a complete set of results materials, including comprehensive CEO and CFO reports, all of which are available on the ASX website.

Joining me on my left is Peter Hiom, my Deputy, who will assist me with aspects of the Q&A part of the proceedings. I will briefly touch on some financial and operational highlights from the half-year result with you and then I will open it up for questions. When you are asking a question, whether you're here at the ASX in Sydney or whether you are on the line, if you can speak into the microphone, and clearly state your name and organisation so that we can make an accurate transcript of these proceedings. We will probably go through questions here in Sydney first and then open it up to those on the telephone.

Let me repeat, before I go through the slides and start the Q&A, what I said at our analyst briefing and webcast this morning. The purpose of this session is for me to elaborate on written commentary. I won't be providing in my verbal remarks ball by ball commentary on the merger proposal, nor will I be providing speculative responses to speculative questions. I will say that up-front so that I don't cause any offense during the Q&A session itself.

Without further ado, looking through the brief slide pack that we made available, underlying net profit after tax is \$175.5 million up 2.9% over the prior comparable period. That was made up of:

- operating revenue excluding interest and dividends of \$306.4 million which was up 1.2%
- cash operating expenses of \$68.1 million were virtually flat on the prior comparable period, being down at 0.1% year on year
- underlying earnings per share of 100.7c per share was up 1.4% and
- the interim dividend of 90.2c per share declared was up 1.2% over the prior period.

My section of the comprehensive half-year report released this morning contained a section devoted to the ASX-SGX merger announcement, which really looked at going-forward processes as far as that merger announcement is concerned.

Looking back on the half, I have described it as being a half of sound financial operation performance and sound and good compliance with all our regulatory obligations. We have maintained our long-term track record of continuing operation expense containment.

We had close to 100% availability of all our core trading clearing settlement system applications, and that's topical because we also implemented - in October and November respectively - new cash trading and derivative trading platforms, almost concurrently - about a month apart - and that gave rise and partly explains the uplift in CAPEX and the downstream consequences for a higher depreciation and amortisation charge in that half-year result. We also had the lumpy CAPEX commitment which we announced in relation to a new data centre which is being built on the Lower North Shore and should come on-stream later this year.

I will skip through the business highlights because Peter is with me and I think we can deal with the product and service content of the half's performance during the Q&A. As far as the post balance date period is concerned, the six-week period since 31 December last year, I described in the Analyst Session this morning as being a time that was eventful at home and abroad.

It has almost been a six-week period of biblical proportions. By that what I mean is in Australia we have obviously had a fairly bullish tone to the start of the year in terms of the equities market. For the first six weeks of the year the All Ordinaries Index has risen 3.6%. ASX has experienced an uplift in February over its more seasonally subdued equity trading volumes in January. We are still observing low overall volatility in equity markets both in Australia and offshore. Obviously we only had one Reserve Bank meeting so far this year but clearly markets are pricing in official cash weight stability, not only for the start of the year but possibly for most of the first half. But offsetting that we've obviously had the natural disasters in Queensland and the Victorian floods, as well as the Western Australian floods and bushfires. So it's obviously been, domestically, a busy and eventful six week period.

Offshore it has been equally newsworthy. Within our sector we have seen the two exchange merger announcements last week, ongoing press coverage in relation to both European Monetary Unions and the sovereign debt issues embedded in the four PIGS [Portugal, Ireland, Greece and Spain] countries of Continental Europe. US Corporate earnings season has all but done its dash now and I think most of those US Corporate earnings were ahead of consensus and that is going some way to explaining the uplift in global indices.

We have obviously seen the Egyptian unrest and the somewhat cataclysmic political events there which seem to be spilling over into other Middle Eastern economies. Foreign Index movements: as I say, ours was up 3.6% for the six-week period until last night. Foreign Indices: the US is up 5.9%; the British FTSE index is up 2.7%; the German DAX is up 7%; Singapore is up 2.7%; Japan has been up 4.9% and surprisingly the Hong Kong Hang Seng Index is virtually flat, it's up a much more modest 0.4%.

In terms of what all of that domestic and global activity has translated into for our trading volumes, our activity levels for the first six weeks, ie the post balance date period, is that our cash markets averaged daily traded value of \$4.9 billion per day, up 1.3% on same six-week period last year. Our futures and options ASX Trade 24 branded platform for derivatives volume for the past six weeks of 301,000 contracts a day is up 14.7% on the same six-week period of 2010; and the ASX cash market or exchange traded option derivative's average daily volume of 78,000 contracts is up close to 2% on the same six-week period last year.

On the listing side, or capital raising side of activity, we have had 13 companies listed in January compared to five in January of last year. The actual listings track record is roughly commensurate with what I referred to this morning as 'the robustness of the listings pipeline' which is about twice as robust as it was this time last year. So the listings we've actually seen seem to be carrying through in terms of ratio of stronger listing applications in the

current year, and really the only activity level that is down noticeably is secondary capital raisings which, whilst higher than January, are still relatively low. But that is because in the peak years of the GFC we saw this enormous take off in secondary capital raising as corporate balance sheets were restored.

That's the end of the presentational comment because I can't possibly do justice to the level of disclosure that we published this morning. I will open the session up for some Q&A and just again, as you receive a microphone, please tell us who you are and the organisation that you represent. We will do those physically present in Sydney first and then I'll open it up to those who are listening in by telephone.

George Liondis - Australian Financial Review:

You, along with the Singapore Exchange, announced some changes to the deal earlier this week. I am just wondering firstly how those changes have been received in terms of any feedback you have taken and also whether you think they have increased your chances of getting that deal through the regulatory and political process?

Robert Elstone - Managing Director & CEO, ASX Ltd:

The first part of the question: I haven't taken any feedback because since we announced them Tuesday night I have been in an all-day board meeting and an all-day results presentation today. So I haven't personally solicited or received any feedback.

Second question is probably off limits because, I said at the beginning, I wasn't going to give a speculative response to a speculative question. I think we are now engaged, George, on the preparation of the FIRB [Foreign Investment Review Board] submission. It's not an ASX submission it's an SGX submission but we are obviously helping our colleagues in Singapore put that together. I would expect that to be prepared and be close to final over the next two-to-three weeks, and I think then the timetable for consideration of it is outlined pretty much in my written commentary this morning.

Shraysi Tandon - Bloomberg News:

We have obviously seen some opposition, or concerns, from Australian politicians who say that the proposed merger is not equal enough. Do you believe in the notion that mergers are necessarily equal?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Well I said this morning and I just repeat it again, I am not sure what a merger of equals actually means. I think all that's really relevant in a merger is: Do both sides of a combination want to do the combination? That's by far the most important aspect, and often transactions that are portrayed as mergers of equals are not quite sure what it means.

The reality is when you want to bring two enterprises together you do it on the basis principally of the relativities of the market capitalisations of both companies. So the perception of equality, well that means different things to different people, and I think the issue is really one of: you have to deal with the practicalities of the size of the two organisations. In our case the Singapore Exchange had a materially higher market capitalisation at the time of the announcement than the ASX, and yet the scale relativities between the two businesses were disparate in the other direction.

Because ASX is a larger exchange we felt that the mixture of cash and scrip presented a very, very fair option to the ASX shareholders given the scale differences and the risk differences between the two exchanges. But really, much beyond that, I don't think I can say. Don't interpret my remarks as I don't believe that mergers of equals are possible. If companies happen to have a 50/50 market capitalisation relativity then that's about the closest you will ever get to bringing two equal players together.

I think what is important, and what has been missing from much of the public commentary, is - as I said this morning - the exchange world and really wholesale financial markets are at the cutting edge of globalisation. You have to divorce ownership from sovereignty.

The reality is that foreigners own ASX today, and no one jumps up and down about that fact whatsoever. There is nothing stopping foreigners owning 100% of ASX today, there is no law of the land that stops that from happening. The only law of the land imposes a 15% shareholding cap. So much of the nonsense about the ASX staying in Australian hands; the decision was made 13 years ago to allow - in Australia's case - to allow the exchange to list upon itself. That means anyone can own the ASX if they are prepared to buy the shares. So theoretically ASX could be wholly foreign owned as we speak.

I think we felt that the terms struck, not only in terms of price but mix of cash and scrip consideration, gave the ASX shareholders enough protection and yet enough ongoing scrip involvement to give them a growth optionality on the upside from no doubt a much stronger exchange that could be combined.

Andrew Robertson – ABC:

If the London Stock Exchange-Toronto deal gets up and the New York Stock Exchange and Deutsche Börse get up, will that be favourable for this deal or, conversely, if they are both rejected will that be not favourable for this deal?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I am not going to put myself in the shoes of either the politicians or the regulators that will make those judgements. But I have drawn attention, in my written words, to the fact that I think until those transactions were announced last week I certainly gained the impression from Australian commentary that we were splitting the atom here in Australia: that this had never been done anywhere in the world before. In reality it has been done in 15 countries. This transaction has been done in 15 countries, OK? And we are not talking, in every case, small countries. The countries in which it has happened - and I will name some of them: France, Italy, Belgium, Netherlands, Sweden, United States - none of the stock markets in those countries have stopped either capital raising or producing price discovery.

So we need to keep in perspective that we are not splitting the atom.

I think we pointed to those transactions as being symptomatic, Andrew, of the inevitability of global consolidation in the sector. Now whether that translates into being a strong or a weak influence on politician's minds or regulator's minds, I am not going to be drawn on that.

Andrew Robertson – ABC:

It is a political issue as much as a financial issue?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Absolutely. Absolutely, but I think the judgement for the political forces that get brought to bear on it will be one of: What is it that needs to be protected?

We believe, and I think most objective commentators believe, that sovereignty doesn't need protection because the sovereignty protections already exist and will continue to exist. I think there is no likelihood of Australian regulators lowering their standards because the ownership of the exchange may change. And I think on the other side of the fence, the politicians will also need to take into account that we are in an industry that is at the cutting edge of globalisation and in some respects many aspects of political policy development is making the pace of that globalisation go faster - namely the opening up of domestic exchange markets to foreign competition. So I think the dilemma that policy makers and politicians have is that it is producing a consequence of incumbent exchange mergers that are a logical response to a process that politicians in all countries have actually started. So pretending that this is inconvenient or wrong when it's a very logical response to other policy settings doesn't seem to us to be particularly sensible.

The issues are difficult - they are difficult issues for politicians, they are difficult issues for regulators, they are difficult issues for exchange boards and management - but there are no issues here that are insoluble. If they were insoluble issues we wouldn't have seen 15 exchange cross-border mergers done, and we wouldn't have seen two announced last week. So the issues that are in front of us ought to be soluble.

George Liondis - Australian Financial Review:

You have talked, and there has been a lot of commentary, about the global deal strengthening; the rationale behind the ASX-Singapore deal. But I wonder if you might give us some thoughts on the competitive threat that these global mergers might pose for the ASX and Singapore or a combined ASX-Singapore group. For example, Toronto and London both are very, very strong in the resources area and if they get together does that put pressure on the likes of ASX with its heavy focus on resources?

Robert Elstone - Managing Director & CEO, ASX Ltd:

That's a really good question George, thank you for that, and I think it is actually linked to Andrew's more political question a moment ago. I think part of that political weighing-up process your question implied has to go to George's question a moment ago, which is another factor that the politicians have to take into account.

The world isn't going to stop because ASX-SGX proceeds or doesn't proceed. So the counter-factual is that if, for whatever reason - political or regulatory, the ASX-SGX transaction were not to proceed, there is no status quo.

There is no scenario where ASX just continues to carry on, largely because - as those other transactions occur and as George's question implied - the competitive position of the smaller exchanges continues to be eroded by the combination of domestic competition and the threat of foreign entry by even bigger foreigners.

We are at the cutting edge of probably the best example of a globalised industry. As I said last October (and I think every reporting season media briefing I have done) ASX's participation in regional or global consolidation is a mandatory subject. It is not an elective subject, it's a mandatory subject. We can all talk about how it happens, but whether it should or shouldn't happen is a pretty irrelevant question, I think, for the reason that George's question implies and that is: If these other consolidations continue to occur - and I think they will, whether they will be these specific deals that get through or whether its others, it is inevitable.

It is like if all the world's airlines got together and Qantas just sat back and said 'oh we don't need to participate in this' - the consequences of that would be quite predictable. A good question George, thank you.

Sarah Jones - Bloomberg News:

I know you won't be drawn on speculative questions, and you don't want to speculate on the outcome of the deal, but given the announcement earlier in the week, do you think what has been announced – the increase in ASX representation on the board - should be enough to appease the opponents in Canberra?

Robert Elstone - Managing Director & CEO, ASX Ltd:

No, there is nothing speculative about that question so I will answer it. We wouldn't have made the announcement if we didn't believe that it was a solid step in the right direction. I think it was, and remains, in the nature of a concession from the Singapore end of the transaction to allow the equivalent number of ASX directors to Singapore directors.

Going to your colleague's question earlier on merger of equals, I think what is bizarre about this concept of a merger of equals is that when people are on a board they act in the best interests of the company. They don't say 'well I am an Australian and I am a Frenchman and I am a Dutchman and I am here to protect Holland or France' they act in the best of the company.

I think what we are trying to do is create a company within our sector which is somewhat unique because it won't be Trans-Atlantic; it will be the first cross-border combination within the Asian time zone. It is a combination that takes a steady growth large country exchange with a phenomenally high growth small country exchange and seeks to get the best of both of those worlds. So I think getting equality of citizenship of directors is a very good step, but I won't be drawn further.

I will say I think it should be well received, but I am not saying whether it will be or whether it has been, because I haven't tested the reception yet.

Sarah Jones - Bloomberg News:

And if it's not well received I guess my question is, and I am not sure whether you can judge whether it is speculative or not . . .

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think this is definitely going to be a speculative question.

Sarah Jones - Bloomberg News:

I will ask it anyway, would it be open to more concessions?

Robert Elstone - Managing Director & CEO, ASX Ltd:

That's a question for Singapore, that's not a question for ASX. We are not the party that's making the concessions; we are the party that is asking for them. So your next question is going to be; are you going to ask for some more, is that right?

Sarah Jones - Bloomberg News:

Why not?

Robert Elstone - Managing Director & CEO, ASX Ltd:

No comment.

Sarah Jones - Bloomberg News:

And very lastly, in the press conference earlier in the week, the question was this is about growth, creating growth. Looking at the results today everything seems to be broadly in line. Do you think the results today sort of validate the need for ASX to merge with a bigger partner?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think the merging with a partner of the right choice, it doesn't have to be bigger - in this case Singapore is bigger in market cap and smaller in activity level. But I think the virtues of a merger between Australia and Singapore, as I said this morning, is that you are taking a steady growth western exchange, the ASX, with a very high growth Asian exchange and if we can blend that, not only in terms of the terms of trade but the way we execute the combination, then I think it represents not only for ASX and SGX shareholders but for all the users of both markets, it represents the best of all worlds. The blended combination should have a higher growth rate by virtue of the fact that one leg of it is in a higher growth but higher risk economic zone to the one that we are in, and I think again your question goes to George's question, that particularly if resource centric exchanges like London and Toronto come together, then its back to my earlier response that participation in regional or global consolidation is very necessary for us.

We sit out the global dance at our peril, and I don't mean that as the ASX CEO or the ASX board. I think I can say that on behalf of the Australian national interest. The Australian national interest is not going to be well served by signalling that we are not open for business, we are not open for foreign inflow, and we are not open for a true engagement with Asia. Now we are happy to discuss how that's best achieved, but I think pretending that we can just stand alone either as an exchange or as a country for that matter is not well grounded.

Shrasi Tandon - Bloomberg News:

Robert I just wanted to follow up on your comment about global consolidation. Do you think that governments around the world, and in particular the Australian government, do you think they don't appreciate - or they are yet to appreciate - the need for global capital. What are your thoughts on that?

Robert Elstone - Managing Director & CEO, ASX Ltd:

No I don't think there is any possibility that the Australian government doesn't appreciate the need for foreign capital inflow. I mean since Captain Cook landed 200 metres up the road, the entire Australian economy has been built on capital inflow, so we would be making a gross error judgement to say that the government's consciousness of that is in some way absent.

I think, foreign investment, particularly foreign direct investment as opposed to portfolio investment, is a tricky subject and you have seen that in relation to scarce mineral deposits and agricultural land.

I think what differentiates the exchange world from many of those other areas like mineral deposits or agrarian land is that as the government has already demonstrated, you can invent more exchanges, you can't invent more aluminium or invent more titanium deposits or invent agricultural land. You actually can create more exchanges at the stroke of a pen - and the government appears to be predisposed to doing that.

When the government has that flexibility to deregulate its domestic capital markets I think it has to look at foreign competition and the strategic positioning of the incumbent domestic exchange very differently from the way it would look at foreign investment in other cases like mineral deposits or agricultural land. I don't think there is much comparison with this situation.

Tracy Lee – The Australian:

You said earlier that exchange mergers have happened many times across the world, and you are hardly splitting the atom. In fact the ASX is really for sale every morning at 10am when trading opens on your own boards. Why do you think the issue is so poorly understood? Is there a sense that this has been overly politicised?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Gosh I think we only have about 20 minutes left in the session. You have asked me a subject that could take hours to talk about. The exchange sector is a complex sector and when you get complexity combined with reasonably superficial reporting often the real subtext of the debate gets lost.

I think the challenge in the exchange sector is that a lot of the preconceived views - particularly in general public opinion - is that because the exchange has a strong brand, or is perceived as an icon, then it mustn't fall into foreign hands. Well of course the misnomer there is it already can and should be able to fall into foreign hands by virtue of having a fairly open register.

I am not going to comment much further on whether I think, or does the board think, it's become too politicised. Of the 15 cross border mergers that have been done, they have all raised in their home jurisdictions equivalent issues to those that have been raised in Australia and in every case they have been overcome and the transactions have been consummated. I think you can take from that what I am inferring about what should happen in Australia.

George Liondis - Australian Financial Review:

You mentioned FIRB earlier and how that process was proceeding. I wonder if you could tell us how much input they have had in terms of the changes you announced on Tuesday - that's the first question. There is a quick second question on the timing of a deal and when it might be completed. I wonder if you could update us on that, and what your thinking is there?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think it would be wrong to suggest - the nuance of the first part of your question is we announced what we announced on Tuesday based on dialogue with FIRB - that would be misleading and wrong. As we have said in our written commentary, we have consulted with a very wide range of stakeholders and we have listened, we have heard and we have acted. FIRB was probably one of tens of stakeholders that we spoke to, but we certainly didn't announce what we announced on Tuesday because of FIRB or on the basis of any steer from FIRB. Nothing could be further from the truth.

On timing, I think that is all pretty much laid out - at least the procedural sequencing of what needs to happen - in my written commentary. The only reason I haven't put timeframes to each step in the process is because we don't control the timeframes. But they are a matter of - at least the FIRB process - is a matter of public knowledge: which is as short as 30 days with optionality for up to a 90 day extension.

Question off mike from George Liondis – Australian Financial Review

Robert Elstone - Managing Director & CEO, ASX Ltd:

Yes it is.

Patrick Durkin – Australian Financial Review:

I just have one question about your recent submission to ASIC about the new share market rules. I noted in that you called for licensing of dark pools and tighter regulation in that area and regulating their growth. I am just wondering if you could make a comment about how much of a threat that growing area may pose to your business as well?

Robert Elstone - Managing Director & CEO, ASX Ltd:

It obviously is a threat otherwise we wouldn't have raised it in the submission. I think your question, Patrick, also goes to George's earlier question. One of the reasons why I think you are seeing these announced exchange combinations is not just because of domestic competition in the lit markets, but the proliferation of dark markets which are going largely unlicensed and largely unregulated.

So again, if you read my written commentary today, I think the second paragraph under the ASX/SGX merger is devoted to the very question you have just asked me. So whilst some of the rationale for these mergers is bound-up with the pursuit of scale, synergies and diversification, some of it is bound-up with the fact that the incumbent exchanges have lost market share - not only to domestic lit markets but to dark pools. We just cannot see the policy consistency between having ever more complex regulation imposed on lit markets and progressively less on dark markets. It is not to say dark markets don't have an important role to play, but we cannot see strong regulatory arguments as to why dark markets should continue to be unlicensed, unregulated or at best poorly regulated.

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