



**ASX Limited Annual General Meeting**  
**Chaired by David Gonski AC, ASX Chairman**  
**Edited Transcript of ASX 2011 AGM Q&A**  
**22 September 2011**

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**I. FINANCIAL REPORT Q&A:**

***Carol Limmer, Australian Shareholders' Association***

*Good morning, I am Carol Limmer and I represent the Australian Shareholders' Association with 302 proxies for something over 400,000 votes. I would just like to commend ASX on what has been a very solid result. There has been excellent cost management, there is a good dividend payout, the CEO and MD well summarised the results earlier and of course they are very well summarised in the annual report. The fact that the ASX has been able to keep their eyes on the main game, the continuity of the business, whilst there has been a lot of turbulent activity going on in the market - things like the recently failed merger - so there have been challenging times and a solid result has come out of that. With the competition entering the market, obviously there has been a lot of work going on in terms of positioning the organisation to face that competition. So I thought I would like to say that, and to wish the outgoing MD and CEO all the very best. He has obviously been an excellent cost manager. Thank you.*

**David Gonski, Chairman, ASX Limited**

Thank you Mrs Limmer for your thoughts. I think there was a question just up here on the side.

***Name not given 1***

*Thanks Mr Chairman. I suppose with a lot of talk recently with competition coming on 31 October, revenue from the cash market is only about 22% of the total revenue of ASX and, of that, the majority is obviously cash market settlement and clearing. So, it would appear that trading only accounts for 6-7% of total revenue. Could you give some indication as to, say, if the ASX lost 25% of its trading to Chi-X, what impact that would have on profitability?*

**David Gonski, Chairman, ASX Limited**

Firstly, I think it's fair to say Rob [Elstone] that those numbers are correct? We just talked about them on the walk down the steps to get here, and I think we worked it out that the numbers, as you have stated, them are correct. I would not like to make estimates one way or the other on firstly what percentage may or may not occur, nor for that matter how it would affect us. But I think your logic, if I may say so, is excellent. You have identified, which many don't seem to understand, that it is obviously a part of our business, a very important part of our business but it is not all of our business. I don't know Rob [Elstone] if you want to say anything further on that?

**Robert Elstone, Managing Director and CEO, ASX Limited**

All I would add, David, is in the last year you have already seen a loss of revenue. That was deliberate because we lowered our trade execution fees that applied to the equity markets. But in the year we have recovered that revenue. So I don't think you can assume there is going to be a linear relationship between whatever the extent of

market share loss is going to be, translating into a linear reduction in revenue. And I think we are at the one inch end of the ruler, as your own maths implies. That is not to say that we are making light of competition, but we are chopping down a lot of forests talking about this, and we will see where we stand in a year's time. But we are more than ready with our preparation for this next era.

***Name not given 2***

*Mr Chairman, just following on, the previous speaker stole half my thunder. Are there possibly any benefits to the ASX bottom line with the incoming Chi-X competition and also part of ASX's failed bid for the link-up with the Singapore Exchange? Where else would you perhaps seek to extend the reach of ASX? If not Singapore, would there be other opportunities regionally which might, in part, counteract any of the negative effects that Chi-X competition might bring to the bottom line for ASX?*

**David Gonski, Chairman, ASX Limited**

Let me take the second part of that question first. As I said in my address, and as we have said many times, we believe very strongly in regional - and indeed in world - integration or alliances. And I should assure the shareholders, as I did in my address, we will continue to look at alternatives and they will only be accepted if they are good for our group. And obviously we will seek to maximise our impact, both in the world and obviously in a profit situation. I do not believe that we can say to you now exactly how the world in the future is going to be. If we were, we'd be probably all much richer for that. But it is something that we will keep our minds open to and, obviously, as you can see from the figures, we have a very strong base to work from and indeed I think a very good team to work with. On the first question, in terms of opportunities that may come, Rob [Elstone] I think it is fair to say, I might ask you.

**Robert Elstone, Managing Director and CEO, ASX Limited**

I am happy to respond to that as it's linked to the first gentleman's question a moment ago. I think as a general response to your question, it's inevitable and it's already started to happen that one of the benefits we will receive is, I think our revenues will be more diversified than they would have been if competition hadn't started. And you have already seen that revenue substitution effect begin to happen in the income statement which was partly why I responded. The flip-side of that comment means that we will be less exposed to transactional activity and value levels; and there will be people in the audience that argue that's a good thing and there will be others that argue that's a bad thing. I think from a management and board point of view we would probably say that diversification of our revenue streams, and a wider service offering to our customer base, is probably a better long-term value creator than the short-term leverage that we enjoy as a sole service provider.

**2. REMUNERATION REPORT Q&A:**

***Carol Limmer, Australian Shareholders' Association***

*In relation to the Remuneration Report, many aspects of the report I think the Australian Shareholders' Association would say are very reasonable. There is one issue which is a concern though and that is the long-term incentive plan and the fact that the performance period is just three years and not something more like four or five years, which might be considered more long-term. Now I appreciate that in some organisations, particularly say with CEOs, that the grants might be drip fed over a number of years and often that's taken as there is always a running sort of issue in relation to them having skin in the market, let's say. But nevertheless we are looking for organisations to increase that performance period, and also and possibly in relation to CEOs, even have maybe a*

*trading lock, a deferral, beyond the long-term investments, long-term incentive vests too. I would appreciate your comments on that issue of the long-term incentives, thank you.*

**David Gonski, Chairman, ASX Limited**

Thank you. Firstly can I say there is no entirely right or entirely wrong situation, I mean, there may be some that are entirely wrong, but whether it is three years, four years or five years, I think is a question, a decision of what works best for a company. I want to assure you, because we know the Shareholders' Association's attitude, that we have debated this at our remuneration committee. At this time we have chosen to continue, as you can see, at the three-year level. We acknowledge that it is a perfectly proper argument to say that you should have it longer etc, and we will continue as the years go on to debate it. In the case of this company, as you do know and as you mentioned, we do give LTIP [long-term incentive plan] awards each year. Obviously in the case of our present Managing Director and CEO, he didn't have them at the end because his term was coming to an end, so therefore you have, as you say, a running three years that goes for some time, hopefully, as the person matures in the job. All I can say to you is that we will keep it under review but at this point our view was that three years was the right period.

***Name not given 2***

*Thank you Mr Chairman. I would just like to echo some of the comments made by the Shareholders' Association. We also have the ASX Corporate Governance Council on the matter of three, four or five years being long-term, surely wouldn't the ASX Corporate Governance Council take the lead rather than just follow? It does seem to be, in a number of companies, emerging good practice to have a four-year period as a long-term period. It also takes up the point if there is a lock-out period four years it gives a greater flexibility to the executives in terms of lock-out periods of buying and selling shares. The other point that could have been made by the Shareholders' Association, also with the total shareholder return [TSR] metric, I would have thought that these emoluments are for superior performance on a long-term incentive basis and yet 50% is the base line. I would have thought 51% at least of the comparator TSR group would have been a better measure and for the ASX to take the lead in these corporate governance measures, rather than debating it and following it. The debate has been out there for probably 10 years, as far as I can understand, and it does seem to be aching slowly emerging best practice in both of those, the four-year term and the 50 plus 1% measure. Surely, the ASX could take a lead in these two areas because the Shareholders' Association and a number of similar bodies have been making this point quite clearly for many, many years. I would have thought the debate is well and truly not just on the floor but fairly conclusively argued in favour of higher metrics for what should be higher performance and higher remuneration, and yet they seem fairly average basically. The Shareholders' Association has been commenting for years that a lot of the hurdles are very average but a lot of the remuneration is very well above average, so they are getting above average remuneration often for just average performance. Can't you set the bar higher as the leader? Especially this company of all companies and the Corporate Governance Council would be very well placed, more than any other company, to set the bar just a little bit higher.*

**David Gonski, Chairman, ASX Limited**

Look, thank you for your comments and I think firstly, I want to make it clear that the ASX does wish to be a leader and we are, I believe, a leader in what we do. One of the things though I have got to say to you is that remuneration must, in my view, not follow a particular pattern in every situation. In my view, each piece of thinking has to take place and be thought through each time. I can't say to you, to be honest, that it is correct to say that it should be longer than three years. I can't say to you that it is correct to have TSR at 51%, 65% or whatever. I think each company has to thoroughly think it through to make sure that there is a balance between (a) being fair

to shareholders and to the company as a whole and (b) having something that does the job. It's interesting as somebody who has been on boards for a long time, I have lived with long-term incentive plans that our management have realised are worthless, and when they feel they are worthless they are indeed worthless. You may as well not use them. On the other hand if you construct them in a way that is a balance they can be wonderful tools for getting particular results achieved and indeed for motivating people to swim in exactly the same direction as all stakeholders. So I would like to just put that to you. In terms of the debate being won or lost, I think it is perfectly proper, if I may say so, for the Shareholders' Association to raise the issue. But I think it is a debate and I don't think it is lost or not lost. What is important is for directors to challenge themselves to look at these things and come to a decision which, I assure you, we do and we do regularly. The final point I would say is you mentioned about people being paid sums for not giving results. I would have to say I challenge that in relation to this company.

***Name not given 2***

*That's not what I said Mr Chairman, that's not what I said at all.*

**David Gonski, Chairman, ASX Limited**

Well maybe our system is working then.

***Name not given 2***

*No, no that's not what I said at all Mr Chairman. I said that the performance metrics are pretty average. Whereas a long-term incentive, or indeed any incentive, should be for superior performance. I have no objection to that but it should be pari passu. If you have superior performance you should get paid, but the superior performance should also have superior metrics, not just a 50% average tracking which would be relatively easy for a lot of executives in a lot of companies simply by turning up nine-to-five to achieve. I simply make the point that if you are going to have superior remuneration for superior effort, you should also have the bar set just that little bit higher, not ridiculously high, I am firmly in favour of incentives of one sort or another, but it should be in relation to the superior performance, should have a superior metrics, and I don't see with relation to TSR that 50% gets 50% of the emolument. I just think that is pretty average frankly, it should at least be 51% and that point has been made by the ASA and many other bodies, corporate governance bodies for decades.*

**David Gonski, Chairman, ASX Limited**

I hear you. And the only thing I would say, and I know you understand that, when we talk about 50% on TSR, it's not 50% of TSR. You do realise that? What happens is the TSR is a relative matter, you have a whole number of companies which have to be tracked during the same period, and what we are saying is if we do better than the 50% then the LTIP will basically vest. The interesting thing is that the group of companies has all sorts of things happening to their TSR, such as takeovers, and we have had a big one today, etc, etc. So I do hear you, and obviously we, as the remuneration committee, meet regularly and I do assure the shareholders that we do bear these things in mind. And we definitely believe that our LTIPs and our STIPs [short-term incentive plan] should work for all concerned; the employees on the one side but also the company and the stakeholders on the other.

***Bob MacGregor (Juvem Investments), shareholder***

*I would like to take this from a slightly different point of view. Those who know me, Bob MacGregor is my name, Juvem Investments and a long-term shareholder since the SFE days, and ASX. I am coming at this from a fiat money point of view. As we all know we have massive inflation around the world at the moment which could escalate into hyperinflation and all our metrics are all governed by fear. Can we please think about assessing*

*them in terms of gold, the actual true money, and then you will probably find that everybody is going downhill at a great rate. This concerns me because I think we are probably within 12 to 14 months to hyperinflation of the world. And as we all know, if one looks at these things, this can escalate dramatically very quickly. For example in 1923 I think it was, in Germany, the price of an ounce of gold went from something like about 900 marks to 1 trillion marks in 10 months. Now everybody would probably snigger and laugh and think that can't happen here. But of course we all know that it can. Why? Because fiat money is backed by nothing, and so when we have a base rate, which is fiat, which can escalate, how can we set metrics on anything? And I suggest that possibly we should consider that we should set this against the base mark of gold and then we will truly see whether we are going anywhere. For example, 9 March 2009 saw the bottom at 666 on the S&P 500 index in the [United] States. Adjusted for gold its making, and has been making, new lows for about the past one-and-a-half months. So where are we going? And I just suggest to everybody that we take a good hard look at what we are trying to assess in terms of gold, the real money.*

**David Gonski, Chairman, ASX Limited**

Thank you very much, Mr MacGregor. What you have illustrated by your wise comments is the difficulties in setting these sorts of goals. But as I said earlier, I promise you we look at that. That has come up. Not gold necessarily, but the fact that inflation can affect returns etc, and I promise you we do look at that. The difficulty, of course, also is the question of what is under the control of the employee and you would say, well, in hyperinflation it's pretty easy. Obviously, the opposite is not so easy. But you have illustrated it beautifully and your comment, if I may say so, is a very sensible one. Thank you, you are quite correct.

Transcript ends