# Edited Transcript of ASX FY 2013 Analyst Briefing and Q & A

## 22 August 2013

Elmer Funke Kupper, ASX Managing Director and CEO:

Welcome to all of you here at the ASX auditorium in Sydney and to those joining us by phone and via our webcast. For those of you here in the room could I ask you to turn your phones on silent. Complete full-year results materials including our 2013 Annual Report were released to the market this morning and are available on the ASX website.

Joining me here on stage today are Peter Hiom our Deputy CEO and Ramy Aziz our CFO and they are here to support us in any questions you might have. I will present for about 30 minutes. There is quite a bit in this result to talk about and then we will open it up for questions.

Let me start by giving you an overview of the results. At the time we did our capital raising about two months ago we gave a forecast for our underlying profit after tax of $346 million. We have come in slightly ahead of that at $348.2 million. That is broadly in line with last year. It is a result that is driven by two very different halves.

A much weaker first half when market activity levels were still very subdued with earnings down 5.3% and a much stronger second half with earnings up 7%. The final dividend of 82.3¢ was impacted by the equity raising as the shares that were issued, were entitled to that dividend, so that was down 3% for a full-year dividend of 170.2¢ per share. What was pleasing is that we continue to see good revenue growth across the businesses that are not directly linked to equity markets. Our cash market business and information services were impacted by softer market activity particularly in the first half, but our other businesses have shown good growth for the year.

2013 was a very important year on the regulatory front. It was very pleasing that domestically we can look forward to at least a brief period of peace with ASIC having done a very good job around the basic market controls such as high frequency trading, dark execution and the government's announcement to retain the current market structure for cash equities clearing and settlement for at least a period of two years. This has given us some space. But that space is largely taken up by international regulations. That is still moving very significantly and impacting on our business here in Australia and that gets translated through the Australian Financial Stability Standards. We are doing a lot of work to make sure that we comply with those standards and that we invest in businesses that allow us to prosper under those new regulations.

Capital expenditure came in at around $39M. That is in line with the guidance we gave you and a lot of those investments are going into new services in the post-trade area and I will come back to some of that. In the last two months we significantly strengthened our balance sheet through a successful $550M capital raising. That has put us in a very strong position to deliver the new services and comply with international regulatory standards.

As I move to the P & L on page four you can see that 1.1% revenue growth for the year translated into underlying earnings growth of 0.6% and statutory earnings growth of 2.7%.

But as I said earlier it has really been a year of two halves that ended up with this result. The EBITDA margin was relatively stable around 76%. Revenues grew 1.1% for the year. That is really the outcome of much more significant movements up and down across our businesses and that shows the value of our diversified business model. We always illustrate this in a waterfall chart on the next page where you can see as we move from $610M of revenues in the 2012 financial year to $617M in 2013.

You can see the movements by business. The two red blocks represent the businesses that are directly related to equity market activity, which are our cash market businesses which is trading, clearing and settlement and information services. Those businesses were down around about 8% in revenues for the year. But that was more than offset by good growth and revenues in our other businesses with Listings and Issuer Services up 4.7%, Technical Services up 9.9% on the back of the investments we have been making, Derivatives 4.6% and Austraclear 7%. This shows the value of having a well-diversified and fully integrated exchange.

Given the difference between the first-half and second-half performance, we thought it was useful to share with you how revenues moved half-on-half.

If you look at the bottom of this page you can see that operating revenue reduced 3.3% in the first-half and grew 5.8% in the second-half and if you dive into the drivers of that quite significant shift, it is really driven by two main businesses. The first is our cash market business which is effectively our equities trading, clearing and settlement business. The first half revenues were down 18%, the second half revenues were up 3.8%, so that is a very significant turnaround. In fact we saw some growth in our equities business in the second- half. I think it has been some time since we have seen that. The second big difference between the first and the second-half was our derivatives business was down 2.3% in the first- half and up almost 12% in the second half. In fact in the second-half our derivatives business recorded a few months of record volumes and it is really those two businesses and the market activities in them that have driven this big shift in revenue performance between the two halves.

I will now briefly focus on each of the businesses listed on this page. The first business to focus on is Listings and Issuer Services, about 23% of our revenue - so a meaningful part of the ASX business. It achieved modest revenue growth of 4.7% to earn $139.7M with still quite subdued activity levels. The number of IPOs was down and the level of secondary capital raisings was down as well. You can see at the bottom of the page that we are sort of bobbing along the bottom for the last year or two and we look forward to some more activity in corporate Australia as we move forward. But 4.7% revenue growth in that environment is a decent result. We have made very good progress in the initiatives in this business and in our listings activities. Most of the things you see there have been delivered now.

We have delivered capital raising flexibility for smaller-mid cap companies and, in the first year that that was available, some 600 companies used that flexibility and got approval at their AGM for it. We have improved reporting in both mining, oil and gas industries and of course we had a very positive reception to the updates to the guidance on continuous disclosure in our Listing Rules. We are currently consulting on ways to reduce the rights timetable from 26 days to around 20 days or just below that.

Last year we ran a pilot whereby we funded research and facts sheets for companies that don’t traditionally get covered by the brokers. We saw some value in that and we have increased the funding from $1M to $2M for FY14. In this financial year, at long last, we were able to offer Australian Government bonds for trading on the exchange. While it was not an ideal time to launch in the current interest rate cycle, we think it is an important asset class for investors and an important precursor to the development of a healthier and larger corporate bond market.

The Managed Funds Service is the only initiatives in this business where we were later than we would like to be. This has gone through a very significant regulatory review process with ASIC. That process continues. We are getting good support from the regulator for it but it needs to be done properly. We are optimistic that we will launch that service this financial year.

The second business to focus on is our cash market business. This includes cash market trading, clearing and settlement which together accounts for about 19% of our revenues.

In 2013, revenues were $114.6M. That was down 8% as activity continued to be quite subdued, although the second half was much better than the first. If you look at that revenue decline there are really two effects at play here; the first effect is the decline in the overall market which in aggregate did less business so that the total market value traded was down 3.9%, and on top of that the introduction of Chi-X. Chi-X is gradually growing market share so a reduction in market activity and a modest reduction in market share gets you that revenue outcome.

Our focus in this business is to make sure we have a highly competitive service offering and last year again was quite a good year in that respect. We put all our focus on the development of our Centre Point product which last year accounted for 11% of our revenues. We will be launching some more enhancements in that product over the next six months. It is also very pleasing that we have put a lot of the regulatory reviews around the equity market behind us and, by and large, ASIC has done a terrific job in putting practical and proactive controls in place.

In Clearing and Settlement, the big news of the year was the outcome of the government review into the market structure for clearing and settlement. In February, the Treasurer announced any decision on a second clearing license would be deferred for two years and that has the effect of retaining the existing market structure for at least that period. As part of our commitment on that decision, we have implemented a Code of Practice which covers the transparent and non-discriminatory pricing of our services, the access to our services as well as a formal mechanism for our clients to give input to the ASX. All of those things are now in place.

The other thing we did in the last financial year was put in place a revenue sharing arrangement so that the growth in revenues from trading, clearing and settlement would be shared back with our clients. That started on 1 January and so applied to the second-half of the financial year and in that half we were about to share back $2.2M with our clients as part of that revenue sharing arrangement so that is a positive for the broking and banking community.

The other business that is directly impacted by market activity levels is Information Services. Revenue from Information Services was $61.8M, down 8% which is similar to the equity trading results. That is a direct consequence of reduced demand for data in both the retail and professional sector. There are fewer clicks on keyboards and fewer screens and eyeballs looking at those screens.

On the other hand, Technical Services' revenues of $49.8M were up almost 10% as that business continues to grow strongly on the back of the investments we made in our data centre and the surrounding technology. As at the end of the year, we have 117 cabinets in our data centre hosted from our clients. That is up from 76 so that is a pleasing result. The focus in these businesses is largely unchanged and Information Services is all about recognising that the speed of which our clients consume data and the way they consume data is changing as the market evolves. We need to adapt to that and we are doing that both in the way we deliver the service and in our fee structures. And in Technical Services it is about continuing the sales of the services we have in place, as well as at the margin, continuing to develop lower latency services and connecting our network to the networks of other exchanges around the world. So that continues to do quite well.

The largest business for the exchange is our derivatives business. Almost one third of our revenues - 32% last year to $197.3M which is up 4.6% and as I explained earlier a particularly strong second-half. In our interest rates futures business, the stars were aligned for very strong market activity in that period so we had several months of record trading activity. The list on the right hand side of this page (page 10) is a very long list and that is because a lot of our energy is going into the development of our derivatives and our over-the-counter businesses. In fact, a subtle change that you might have noticed in the heading of this page is that it is now called Derivatives and OTC markets, whereas in the past it was only called Derivatives. This is because a lot of our energy goes into delivering new services for the over-the-counter markets.

Continuing focus on product development in this business, we hope to launch VIX and sector futures this half. We also have launched and will continue to launch a couple of new electricity products and we have acquired d-cypha Trade which is basically the front-end of the business that we ran with d-cypha. We effectively brought the marketing and product activity in-house through that acquisition and it tells you that we continue to see opportunities in the energy market.

A lot of our focus is on risk management in the OTC markets. That is a direct consequence of the significant change in global regulations around these businesses. That impacts directly on the Australian marketplace because we have a large number of US and European banks dealing in Australia so therefore, we have to comply with their regulations.

On the risk side, the big news last year was our move to Cover Two and that is the highest capital standards for clearing houses so our futures clearing house will now meet those standards. Last week the RBA confirmed that those standards will apply to ASX’s Futures clearing house.

The new international regulations also gave us new business opportunities. In July we launched our dealer-to-dealer clearing service for interest rate swaps. This launch means that we are operationally ready for clients to connect and we now expect it to happen over the next few months.

We also have a revenue sharing arrangement for that business that has been in place for quite a few years and because of the strong volumes, the amount of revenue share for our clients has gone up as well. Last year it was $7.2M in this business. So, if you take the $7.2M here, $2.2M in our cash market business, a total of $9.4M of revenue share has gone back to our clients. This shows our willingness to share revenue growth where our business is growing.

The final business to focus on is Austraclear. About 6% of our revenues - $38.6M last year. This business continues to run very nicely and shows some growth. Revenues were up 7%. Most of the revenue lines grew and the average balances were up 6.4% reaching $1.4 Trillion in Austraclear. The main focus in Austraclear is to make it the foundation of our new Collateral Management Service which we launched in July. The Collateral

Management Service allows our clients to use the collateral that sits in Austraclear to collateralise transactions as opposed to using cash so that creates collateral efficiencies for our clients and a new service opportunity for the ASX. We are again operationally ready and we are hopeful that during the first-half of this year, clients will start to connect and use that service.

In our Derivatives and OTC business I spoke about new clearing services. Here I speak about collateral management. We thought it was useful just on one page (page 12) to summarise again what it is that we are building. It is really a rather complicated picture. I won't focus on the shaded boxes because that is the traditional exchange. On the left side is the equity exchange and on the right hand side is the futures exchange. If you focus on the white boxes, you can see all the initiatives that we are working on.

There are three initiatives that we continue to work on, two of which have now been delivered. The first is a clearing service for the over-the-counter swaps market. The dealer-to-dealer service was launched in July and we are hopeful clients will start to connect and use that service in the coming months.

The second service that was delivered is at the bottom of the page - ASX Collateral, so we are ready to provide that service to our clients. When it comes to Austraclear in Phase one, this is what our clients told us is of most value to them. The third initiative is client clearing. Client clearing is a new service that significantly enhances the protection of the end client's collateral so this is the investor's collateral and we expect to deliver that at the end of this financial year.

What that means is that by the end of this financial year, the FY14 financial year, Australian investors will have access to a world-class financial infrastructure and ASX is in a unique position given its multi-asset class and vertically integrated business to deliver these services and we are determined to do so by the end of this financial year.

That is about the operating businesses. ASX also earns revenue from interest and dividend income. Interest income was up 8.8% to $44.1M. That is the net effect of two movements; a reduction in interest income on our own cash from $20M to $13M, and that is a direct function of reducing interest rates. So as the RBA cuts interest rates, our earnings go down.

That was more than offset by the interest earned on the collateral balances that our clients lodged with us and those revenues were up 55%. That's a function of two things: higher collateral balances - they were up materially last year, and a slightly higher margin that we earned on it through the way we invest. So the net of all of that is an 8% plus increase in interest income. Dividend income from IRESS was relatively stable, up 1.5% to $9M. Together though, interest and dividend income was up 7%, which is quite a good result for us.

I will now briefly comment on expenses and capital expenditure. Both of them have come in very close to the guidance that we have given you during the year.

Expenses have increased by 3.6% and that is largely driven by the increased staffing levels to support the new initiatives I have just described. As one of the most efficient exchanges in the world, whenever we deliver complex new services to the marketplace, that can require some extra staff - so staffing levels are up 4.8% and that has really been driving the growth in expenses. If you add up all the other expenses together they are flat. So it is really about increased staffing for new initiatives and that is where the staff go. So total expenses are up 3.6%. We also thought we would give you some guidance again for next year. Our current expectation is that operating expenses in FY14 will be up around about 5%. That is a number that is a little higher than you are used to from us but, of course, you have to remember that includes the acquisition of d-cypha, which probably adds a little over 1%. If you take that out, we are back to sort-of normal ASX performance that you have seen from us more recently.

Capital expenditure is a very similar story, $38.9M. I think our guidance was up to $40 million. So we are coming very close to that. About half of this capital expenditure is now going into new risk management systems and the post-trade services that we spoke about earlier. The rest goes into other initiatives as well as normal maintenance programs. We again have given you some guidance for FY14 and our guidance is approximately $40M or thereabouts. So no surprises in either expenses or capital expenditure.

In June and July of this year, ASX successfully raised $553M or about $540M after costs. That puts us in a very strong position to both meet the international regulatory requirements as well as make the necessary investments in our business.

I thought it was useful just to remind everyone where that money has gone and so on page 16 we summarise that. On the right hand side you see the main allocations, the first two lines $200M and $250M or a total of $450M is directly to support the two clearing houses that we have, our equities clearing house and our futures clearing house. $250M is repaying a loan facility that was supporting the clearing houses. Those kinds of subordinated loan facilities are a thing of the past and therefore equity is the way to fund this. About $200M goes into an increase in the capital for our futures clearing house to meet the higher international standards.

At the time that we announced the capital raising we talked about the emerging international capital standards and our expectations. Of course, since then, we have had confirmation that those standards will apply to us and last week the RBA wrote to us to that effect. So this puts us in a very strong position to both meet those standards and invest in our business. Then in August, IRESS announced that it would raise $200M to expand its business in the UK. As a 19.1% shareholder in IRESS, we were happy to participate in it at a cost of $39.3 million so that we continue to be a 19.1% shareholder in IRESS.

We have committed to several things as part of our Code of Practice that sits around clearing and settlement which followed the government's decision to keep the current structure in place for two years. One of those commitments was to make public profit and loss statements for cash market clearing and cash market settlement.

This is the first time that we are publishing those profit and loss statements and they are summarised on page 17. We follow a format that is very similar to the normal format we use for our profit and loss statement so you can easily understand them. What I would like to do is briefly run through them.

If you first look at the profit after tax line at $25.9M for cash market clearing, $23.3M for cash market settlement. We then go up and look at the revenue line - a little over $42M in each of these businesses. That is very close to the statutory revenues that we normally report.

If you normally go through our reports, you see roughly those numbers so the way we charge and the way we report the revenues for those businesses has always been quite transparent. There are a few other minor movements but it is, by and large the normal statutory revenues.

Expense allocation of $10 million in one and $12 million in the other. ASX runs an integrated exchange so it was a bit of work for us to create an allocation policy that allows us to reasonably and accurately identify the expenses to support these specific businesses.

It came out at $10 million and $12 million. One way to test if that is reasonable is to look at the EBITDA margins of these businesses and at the bottom of the page you can see 76 for one, 71 for the other, very close to the group EBITDA margin, which suggests that those allocations are probably not far off what they should be. So we are comfortable with the detailed policies that we developed around those.

The profit after tax was $25.9 million and $23.3 million. Those are absolute numbers. In order to understand those numbers, we need to look at the capital that is invested against them and it is important to understand that there are two very important differences between the way Australia runs it clearing operations and the way overseas markets run their clearing operations. The first one is scale. We don't quite have the scale. We are a large market but we don't quite have the scale that you see overseas and when the Council of Financial Regulators issued its report back in February that led to the governance decision, they recognised the difference in scale.

The second big difference with many overseas markets is the way capital is allocated and attributed to these businesses. In many overseas markets the clients of the exchange put capital into the clearing house. In Australia, the exchange puts its own capital and shareholder money into the clearing house. And it is important to recognise that and you can see that on this page.

If you go to the left hand column and to the bottom you can see total capital allocated to cash market clearing was $221 million. So that is for credit default risk, operational risks and the fixed assets in that business. Most of it is default risk.

And if you then take the $25.9 million over $221 million you get 11.7% return on equity. That is a notch above our cost of capital which we tend to assume is around 10.5%. Economically it is at the margin but it is above our cost of capital. One way to express that is to look at the economic profit. If you move up the page, you see $3.4 million which is basically taken to $25.9 million. Deducting our capital charge because it is our capital that sits in there, to get an economic profit of around $3.4 million. So at the margin but positive today.

Cash market settlement, the same calculation leads to 17.8% return on equity and that is broadly in line with what you see in Australia for the big four banks which sort of sit between 15% and 18%. We have made a commitment to publish these numbers every year.

I would like to close by briefly looking forward and talking about current market conditions. Economically we have seen quite strong performance across the world in the various equity markets. The All Ordinaries was up 22% over the last 13.5 months. We see greater stability overseas with some signs of recovery in the US. While Europe seems to be stabilising, the structural challenges there remain so we don't see Europe as the thing that is going to carry the globe out of its difficulties, but America might.

Domestically, we see some increase in certainty but the direction of the dollar and business investment, particularly mining investment and, of course, everything to do with government's finances in the election, so some of these things will solve itself in the next few weeks.

If we translate that to trading for the first seven weeks of this year, we have seen modest growth on the previous year. The cash market has value traded at $3.8 billion. That is up 7.7% and ASX 24, up 14.9% and still a fall in the amount of market activity in our capital markets.

Now those growth numbers in equities and derivatives sound very good and of course they are good compared to last year but I think one of the things you should remember is last year started very weak. So it is growth on what was a weak start last year. But that is why we are saying this is positive because it is growth and we have to see volumes pick up again as the year progresses following a very strong second-half.

Let me close by one more time summarising the result. At $348.2 million, it is in line with last year and it is really the effect of being down in the first half and significantly up in the second half. The dividend was impacted by the capital raising. If you participated in that, you would have received the dividend that you were expecting in dollars. However, it was diluted from a dividend perspective. The total dividend paid was 170¢.

There was positive revenue performance in the second-half to lift earnings and in fact a little bit of growth in our cash equities business for the first time in some time. There was a very significant focus last year and this year on the regulatory developments. Last year it was significant both domestically and internationally. In FY14, it will be dominated by everything to do with international regulations and our compliance with those regulations is not a straight forward exercise but we will push very hard. The capital raising of $550M has put us in the best position to do so and allows us to meet the highest international capital standards and allows us to invest in the business opportunities that that creates.

That is where I will stop talking and open it up to questions.

Chris Williams from UBS

*Good morning Chris Williams from UBS with two questions. The first relates to your capital expenditure guidance of approximately $40 million for FY14. Given the significant investment in initiatives in post-trade services and risk, particularly in FY13, can you explain why that capital expenditure number doesn't begin to taper?*

*And secondly, around slide 17 and the segment disclosures for cash market clearing and settlement, I am particularly interested in the capital allocation in cash market clearing. You disclosed you have $250 million of default fund capital and yet a capital allocation of $221M which is below that number. If you could just reconcile that allocation as that obviously is the denominator that affects the return on equity.*

Elmer Funke Kupper, ASX Managing Director and CEO:

I understand, let's review capital expenditure first. The investments that we are making pretty much straddles FY13 and FY14 when it comes to our post-trade services. So there is quite a bit more to do here so I will give you two simple examples of that. In order to deliver full client clearing solutions and solutions for the OTC markets we are upgrading our clearing systems. That will continue in FY14. We will produce margin simulation optimisation tools for our clients and that is all part of the total service that we will deliver by the end of FY14 so there is simply a continued investment around those two for clients and client clearing so you can think that we are half-way through that process. I think that will continue in FY14.

When it comes to page 17, this is a very interesting and important question that you raised and I am very happy that you did. Because if you look at page 17, $221 million of equity in our cash market clearing business, what you are raising is that the actual capital in that clearing house for default risk alone is $250 million, not $221 million. So the question is, how can you come up with a lower capital allocation? And, in fact, in some ways it would be in our interest to make the number bigger.

But the reality is that if you look at our clearing house that supports our equity businesses, there are two products in there. There are the cash equities products and there are equity options. We have done a lot of detailed analysis to understand if we need to put a profit and loss statement together for cash equities, how much of that $250 million should go to cash equities versus derivatives.

While on the one hand, you could say it could all go to cash equities and it should be the whole $250 million, in which case that number would be quite a bit higher. There is a benefit in having both products in there. And so we have done quite a bit of detailed math. That means the default risk capital is less than $250 million because there is a bit for the options business, then you add an operational risk and fixed assets and you get the $221 million. We have not disclosed how much of the $221 million is default risk, operational risk and fixed assets but the majority of it is default risk because the $250 million is such a big number and we haven't disclosed how that gets split but that is the explanation why is it not $250 million plus.

Now you could argue that it should be $250 million plus because if something goes horribly wrong in the cash market, the whole $250M is at risk so you could mount that argument. But we think it is more realistic and accurate to say there is a benefit to some diversification here and we should recognise that, give the business the benefit of that and that gets you to these numbers.

So we have done a lot of detailed work around it. I personally expect because it is capital that those numbers will be relatively stable because capital is about the highly unexpected event, such as the stress event over an economic cycle. So these numbers, depending on volumes, shouldn't move dramatically because that is what capital is about at the end of the day. So that is the second part of your question and I apologise for not giving you the breakdown of the number but that explains why it is $221 million not $250 million plus.

Anthony Hoo from Nomura

*Firstly on your cost guidance of 5%, you said 1% is due to d-cypha, which is underlying of about 4%, which is slightly higher than FY13 where FY13 had significant staff cost growth. In FY14, is there anything specific that is driving that higher cost growth again? And secondly, a question around the cash proceeds from your capital raising. I think there is a residual of about $50 million. Are you able to talk about any specific initiatives that you have identified for that $50 million?*

Elmer Funke Kupper, ASX Managing Director and CEO:

Firstly on costs. What you said around 4-ish% is probably a reasonable number. I think it is really driven by our staffing levels. So there are two effects: firstly, we have increased staffing levels through FY13 so you get the run rate effect of that, and secondly we will still add some staff in FY14 to support our post-trade initiatives after which it starts to level off. So it's really FY13/ FY14 where we are increasing our staffing levels so we are going from 505 to 529 I think, call it 530. That will continue to rise a little bit as we said and then you get the full run rate effect from what we did last year. There is nothing more magical in it than that. The rest of our expenses continue to be very tidily managed.

The second question around the capital raising of $550 million. At the time we did it, we said $540 million comprising $450 million for the clearing houses, $90 million to support other business initiatives and growth and general purposes. That was fortuitous anyways because of course IRESS then came out with its initiatives and that consumed about $39 million of it and that leaves about $50-odd million. For a company of our size, that is a helpful buffer to have but these are not big numbers anymore. Once you have allocated 90% of it, I wouldn't say that raising capital is something you could call rounding but on a $6 billion company that becomes a relatively small number so that is available to support normal business activities. There is no specific allocation or plans in relation to that.

We might move to questions over the phone.

Ismar Tuzovic of JP Morgan.

*My question follows Chris's question on how you allocate capital, if you can just extend that to the settlement portion of the business and how you have come up with the number there?*

Elmer Funke Kupper, ASX Managing Director and CEO:

In the clearing house, there are three components with capital: credit default risk which is the largest component because there is $250 million in there today; operational risks and fixed assets. In the settlement facilities there is not the default risk and therefore it is operational risks and fixed assets.

Again we always had the level of capital at the group level to support operational risk. What we have done here is show the attribution to the settlement facilities and that methodology basically relates the amount of capital to the assets that sit in the equity business so about $1.3 trillion worth of assets and there is basically a basis point charge that relates to those assets. That is the way, if you benchmark this around the world and look at custody businesses and other exchanges - that is the kind of methodology that you end up with.

We have benchmarked it. We have created the curve because, of course, as the assets go up, the basis point charge reduces which is about scale and that is the largest component part of this and then there are some other fixed asset charges as well. Again, we haven't broken up that but that is how those methodologies tend to work and we have done that here as well.

Ismar Tuzovic of JP Morgan.

*Can I just confirm that is an economical capital charge that is based on your internal model rather than an externally imposed requirement?*

Elmer Funke Kupper, ASX Managing Director and CEO:

[On page 17] Yes. So, if you look at the difference between $25.9 million and $3.4 million and $23.3 million and $9.7million, that is basically using our cost of capital we used 10.5% for that and we multiplied it by the capital.

But we made one adjustment because if you do the math correctly, you will see it doesn't work. We make a small adjustment and we don't put a capital charge on assets that are still being depreciated.

So, if you look at the fixed asset charge in the capital that is basically the original cost or the replacement value and if an asset has been fully written off it ends up in the capital charge. However, if still depreciating as an asset - and there are some assets that we are depreciating - then adding a capital charge on that as well would double count so we are not doing that.

That is why there is a very small difference between the straight math, 10.5% times $221.1 million and the number that you see but that is really at the margin. The DNA line, and I didn't emphasise that when I presented, but the depreciation and amortisation line across the two businesses is only $1.7M per annum.

If you think about the assets that support those businesses like CHESS and others, what that tells you is we are running assets that have been largely written-off. So what would happen in future, if let's say that we replace CHESS. This is right now a theoretical argument we are having, and I am not announcing any changes to CHESS, but let's say we replaced CHESS and made a big investment in that, then two things would happen. The first is our depreciation and amortisation charge would go up which reduces the net profit but at the same time we would not put a capital charge on those same assets in which case the capital charge would go down and that makes some sense because the economic value of the business hasn't fundamentally changed but the accounting has.

That is how we have done it just to recognise that we run significantly written off assets. I think one day we will give a tutorial on this but we have to give it to everybody at the same time. But that is how the math works and then we disclose the number in a bit more detail.

Ismar Tuzovic of JP Morgan.
*Thanks very much, can I ask on managed fund services, I understand it is still with ASIC. Can you give us a bit more of an update on where you think that will end up?*

Elmer Funke Kupper, ASX Managing Director and CEO:
I am looking at Amanda Harkness here. I think we are going through the final consultation and design, so we have done some market testing on it, we continue to do design. ASIC has been very supportive of the initiative because everybody wants to make life easier for the end-consumer and for the fund management industry and take the cost out of that business. However, we also have to do it the right way to make sure consumers are not confused between the differences in buying an unlisted fund through a platform and investing in equities.

There is quite a bit of work to do to make sure that is in place. I am pretty confident we will get there sometime in the next six months or so which I think is my guess. She is quietly nodding but it is sometime this financial year but it is not entirely in our hands. But the reason we have become more optimistic is that we have had positive support from the regulators on this. Our clients are very positive about it. It is just seeing it through and I said, I think earlier last year, that it is one of those initiatives that we should be patient with. I am not a very patient person but on this one I think it deserves patience and we just have to grind it through and get it right so when it gets launched it will grow.

Frank Podrug from Merrill Lynch.
*A couple from me. The first is your interest income has benefited from high collateral balances in this period but outside of that, what strategies do you feel are at your disposal to manage the impact of lower interest rates going forward? And secondly, as you pointed out the recent capital raising data has been a bit weak. What is the catalyst that you are looking for, perhaps, to spur an improvement here and is there anything seen in the pipeline to perhaps encourage you. I know at this point your capital raising data does look a bit better albeit coming from a weak base.*

Elmer Funke Kupper, ASX Managing Director and CEO:
Alright I can answer the first one, the second, of course, I can't.

On the interest rate front, the reality is when it comes to our own cash, it is largely straight mathematics. We have very conservative investment policies around our own cash as well as our client's collateral and it has to be this way simply because these are real funds that support our clearing houses. It is not an academic exercise to make sure that is done the right way.

So if interest rates were to go down again, the earnings on our own cash will go down again. If interest rates go up, it will go up. It's not something you can manage. You can manage to some degree but you don't have a lot of leeway there if interest rates move materially as they have.

When it comes to our client's balances, it is basically a function of two things. One is the amount of market activity from our clients and the open positions they run. That has gone up substantially. I am not looking at the page but I think they have gone up 38% on collateral balances last year on average and what we can do is that within our conservative policies, manage the treasury function as best we can towards those earnings.

So we position that book for the right environment just like any treasury function would do without changing the level of our conservatism that sits in those investments. Last year the two both went the right way. Balances went up substantially and a slightly higher earnings rate and that gets you quite a nice leverage, so that was pleasing but it does depend on market activity. If market activity falls away then the 38% growth falls away.

You might still get the earnings margin and so that is basically how it works. It is also the reason we don't put it in normal operating revenue. It is a slightly different form of revenue for us that is related to the risk activities that surrounds our businesses.

Some exchanges actually put it in the top line revenue line. We don't think that is right. We think it belongs as a separate category and while you can make money out of it, you also have to recognise that it is subject to the interest rate environment, client activities and it is about real risk management and so it is very tightly bracketed. You don't have a lot of degrees of freedom. Last year we did well within the freedom that we have.

I think you asked something about volumes in the first seven weeks and what we might expect. I can't make any forward looking statements on that even if I had any special insights - which I don't. All I can say is I read the press just like everybody else in the hope that we can see some more corporate activity, you know in terms of floats, company splits and so forth but we will have to see if those come through.

We have seen some growth in the first seven weeks. Hopefully it picks up again and you get those numbers in the market. You can see them daily and we publish them every month so we will see what August brings and then we just roll through the year. If we could predict that, if I could predict that, I may not be here so it is very hard to do. We will just wait and see. 73% of our revenues, if you read our annual report, are directly linked to market activity so what you have to do is invest in your services. That allows you to grow your revenue line, manage the exchange as tightly as you can to keep your margin up, make sure you are well diversified and then the market will be the market and that is how we run the place.

No further question? Thank you for joining us. We are pleased with the second-half but you knew the result already in the sense that at the time of our capital raising, we gave a reasonably accurate forecast.

We are pleased that we have been able to meet that and have a very busy year ahead.

I look forward to seeing you during the year. Thank you.