Edited Transcript of ASX FY 2013 Media Q & A

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George Liondis from *The Australian Financial Review*

You talked about how the international regulatory issues are going to play a bigger role in the next year whereas domestic ones played a role this year. You have talked about some of the things that have happened there already and having to raise more capital for your clearing business. Do you see more international regulation or different things coming on in the next year?

Elmer Funke Kupper, ASX Managing Director and CEO:

We certainly hope not. I think our regulators here have been good and, in fact, outspoken in saying it would be nice to have some time to digest everything.

I think ASIC in particular has to be commended for the work it has done on high frequency trading and dark pools. It has been proactive and practical and, in fact, has shown a willingness to raise a couple of ideas.

You might recall minimum resting times and then say based on the feedback we have received from the market we will park that one and won't insist on it. I think it takes a good regulator to be that disciplined so I am very positive about that. But international regulations are starting to settle down. In Australia, we have what we call new financial stability standards and those standards take all of that and translate it into the Australian environment.

That was basically done in two rounds. The first standards were launched last year and then as part of the ongoing international developments last week, the RBA issued an update to the standards that effectively interprets them for the international environment. For example, on capital the original Australian standards didn't talk specifically about the higher standard.

The letter we received last week confirms that the RBA interprets capital to be consistent with what the international markets are doing and that confirms our capital raising. So I think, George, the reality is it is a bit of a moving feast but I think it is starting to settle down. It is very important for all of us that we don't have five or six different standards that will apply for us because that would drive us positively mad.

There is a lot of work that our regulators are doing to try and make sure that what the Europeans and Americans are doing doesn't impact us in unexpected ways. The European standards have largely settled down and we will soon be applying to be accredited under the European standards. Having already raised the capital, we now need to apply to be accredited as a clearing house by the Europeans and that will be followed by the Americans.

The American situation is a little bit more fluid and a little bit more certain so we have a lot of work to be done there.

On the European front, I think Australia, not just ASX but ASX, RBA, ASIC and Treasury - I think we are as well prepared as we can be at this point. I think our regulators have done a terrific job in cushioning some of the impact and working with us to prepare.

I think America is a little harder because it is a little bit less certain and a little bit further away. But in Europe, I think we are OK. I think there is another 12 to 18-months of hard work to get there but then, touch wood, we might have a bit of peace there as well which I think we all desperately need.

George Liondis from *The Australian Financial Review*
On the balance sheet you showed for the clearing and settlement houses is that post the capital raising?

Elmer Funke Kupper, ASX Managing Director and CEO:
So the capital allocations; the capital raising doesn't impact the capital allocation because that is mathematics.

The capital raising allows us to meet what we need to meet. Following the capital raising, we will have $250 million worth of capital in our equities clearing house and $650 million ultimately in our futures clearing house. These are big numbers. The vast majority of that money comes from us and a bit of it comes from our clients so it's pretty much in place.

George Liondis from *The Australian Financial Review*
But the capital that you have raised, does that affect the return metrics that you are putting up for?

Elmer Funke Kupper, ASX Managing Director and CEO:
No because the return metrics are about the capital you need given the risk that you take, so that doesn't change. That is mathematics. We have very sophisticated stress test models and we are very sophisticated in this.

That determines how much capital you need and then the question is where does that capital come from and for example we used to have a subordinated loan, we have now replaced that with equity so the amount of capital you will need is mathematics and regulation. As a company, you need to source it. We are in a very good position because it is all equity. So as an exchange, today we are debt free and we have very well capitalised clearing houses. That is about as strong a position as you can be in in today's world. And we have done that deliberately to set ourselves up for what we know is coming down the pipe.

George Liondis from *The Australian Financial Review*
And can you give us a sense of what you think is the revenue opportunity for the OTC clearing business?

Elmer Funke Kupper, ASX Managing Director and CEO:
We haven't given any guidance around that and therefore won't.

We have said it is perhaps not quite the revenue opportunity that some people think it is. It is positive obviously and so we need to put it in place. It is also a question of importance and relevance for our financial markets.

If you want to be a world-class sophisticated financial market that has significant participation from global investment banks, and we have a very significant participation from global investment banks, you need to have world-class capital structures, world-class infrastructure so it is both defensive because it is supporting our existing futures business and it is offensive in the sense that we think there are some revenues to be earned from it but we haven't given any guidance on what those numbers are.

Andrew White from *The Australian*

One last question, we had a look at the liquidity centre a couple of weeks ago and I am just wondering, that was about a $30 million investment by you, is that right?

Elmer Funke Kupper, ASX Managing Director and CEO:

About $35 million.

Andrew White from *The Australian*

So are you happy with the returns and the growth that you are getting from that business and how much potentially do you see for it?

Elmer Funke Kupper, ASX Managing Director and CEO:

This was commissioned before I joined so I can only take partial credit for this. But I think it is terrific that we were able to build that for $35 million, if you think about what financial services companies spent to build world-class facilities. So I think it was an outstanding job to create it.

That means we are happy with the returns we are getting from it. You have to realise there was no choice but to build these things in the new world of fragmented market and speed. You have to have these things.

I would like to think that over time this can become the centre where liquidity finds itself between our clients and with ourselves and other operators. I think we didn't have a choice but to build it. I think it has been built very well for a relatively limited investment. If I benchmark this around the world, we are getting good growth in technical services revenue in the last two years, so all of that tells me, good job frankly from the guys. I am pleased with that, yes, I must say.

Brett Cole from Business Spectator

Thank you, could you assess how you perceive you have dealt with the challenge from Chi-X in the last two years? Is it approximately where your market share you have mentioned in your presentation has gone to 92%. Where do you see that possibly falling to or do you think it will possibly stabilise around that figure?

Elmer Funke Kupper, ASX Managing Director and CEO:

Well, I mean the thing about sharing is that there are two people involved in that process. So I think when you start at 100%, you cannot go up from that obviously, so we always expected to go down.

If you benchmark it to other markets, other markets have seen Chi-X or similar businesses get to 15-20% at some stage and then breakeven. You have to ask Chi-X about what their plans and profitability is. I don't know that but I think their market share will continue to go up. I think Chi-X is here to stay and we just have to make sure that we are competitive.

I think the work we have done around Centre Point and connecting that to our normal lit market has been very positive. We will do more of that. And I think we have learned to be a bit faster on our feet. One of the things that competition does is it rattles the cage and it means that the way we respond and the way we are, we go faster on our feet and I think all of that is good.

As you know I have been on the record saying that I am highly doubtful that all of it has been a good thing for Australia. I think fragmented markets are a bad thing but it's probably been OK for us because it prompted us to invest in our technical services business and I think that was a positive.

I think it is a reality and we will fight for share and customers like we should. I should also say that Australia really has three types of markets; you have Chi-X and ASX and then you have the dark market in which Chi-X and ASX play no role. The dark market has been between 25-30%. With the work that ASIC has done recently, it is now possibly closer to 20%. Chi-X and ASX benefit from that, as do investors by the way because it is the right thing to do and then we fight. So CHI-X and ASX fight for the 80%, the other 20% is done directly by the banks and the brokers. All those dynamics we watch very, very carefully and, yes, I think as a traditional exchange we have responded about as well as you could have responded and that started before my time. But CHI-X will grow, our job is to grow revenues and grow the market in totality and grow revenues in that world. That is the job that we have.

Brett Cole from Business Spectator
Just to follow up on the point you are making, am I hearing you correctly in saying you perceive of the 80% of the lit market, that Chi-X's market share could go to as much as 20%? That's feasible in your mind?

Elmer Funke Kupper, ASX Managing Director and CEO:
Well I don't know the answer. If I knew I could predict how that would happen and what we could do about it so this is just life. If you benchmark other markets, we have seen those kinds of market shares.

Europe, America, Canada - so that is not an unusual number. What I would like to think is that all the activity grows the entire market. We haven't seen a lot of that because we haven't seen any new investors arrive. We haven't seen any new liquidity. As a market, I don't think it has been particularly helpful but it is a reality that is not going to go away.

We live within it, we compete well, we continually enhance our services, and we work harder, all that is good. It is good for our clients and ultimately good for our shareholders and that is where we are. I might move to people on the phone.

Malcolm Maiden from Fairfax Media.
I have got two questions. You provided previous corresponding period comparisons on the cash market and the derivatives market. Can you talk a little bit about how it compares with the immediately preceding month? Is there a trend there and what do you make of it? And my more general question is can the global markets rally if Europe's markets do not?

Elmer Funke Kupper, ASX Managing Director and CEO:
To your second question, I think is a very difficult one to answer because we have actually seen reasonable correlation between markets globally in the last 12 to 18 months. Western markets have all done pretty well.

America with quantitative easing probably has been the shining light there but who knows what happens when that starts to come off. I think there is a probably a greater correlation between markets than that. Cash finds itself round the world so you would expect Europe to lag as America recovers and Europe recovers less.

It is not quite what we have seen. I haven't looked at the numbers closely but your guess is actually better than mine. You talk to more people about this than I do.

On the first question, the numbers are actually public so let me give them to you. In the cash markets, we did $3.8 billion in the first seven weeks. That is per day by the way so that was up 7.7% on the same period as last year.

In the first half of last year we averaged $3.8 billion and in the second half we averaged $4.5 billion and so what we would like to see is growth from here on in. That growth year-on-year is terrific but of course we need to see growth on what we have seen, particularly for the second half, and that depends on activity levels and investor confidence and all of that.

The futures market is a little bit more complicated. We did just under 400,000 contracts a day in the futures market in the first seven weeks. That was up almost 15% year on year and it was roughly in line with the first half of last year and below the second half of last year. So in both equities and derivatives you see that the second half last year was strong. That is why our profit was up 7%.

The first few weeks of this year have sort of started to be above the first half of last year but not quite at that second half level. And in the futures business you also have to remember that the 400,000 contracts per day that we did in the first seven weeks is like comparing apples and oranges, when you compare it to the second half of last and the first half because volumes are driven to a degree by roll months. That is when the contracts roll and the first seven weeks doesn't include a roll, whereas the second half numbers do include a roll. I think your question is a little rhetorical in the sense that, yes we have seen growth year-on-year in the first seven weeks.

The numbers are probably more consistent with the average of the first half of last year than the second half of last year. The second half of last year was very strong, particularly in derivatives. It was very strong. I mean several record months

Malcolm Maiden from Fairfax Media.

If I just have a quick follow on. Do you infer from that that the investor mood is weaker now than it was during most of the first half? In other words, if you look at the indexes where we are pushing the ASX 200 up again after the May/June correction but those volumes tell you that quite a few people are staying away.

Elmer Funke Kupper, ASX Managing Director and CEO:

Yes, but if you look at cash market daily value of $3.8 billion in the first seven weeks, and the first half of $3.8 billion, people who are in the market place can see our daily numbers. We have done days well over $4 billion. I think you actually can't answer that question until about three or four months from now because post-election, who knows what the volumes might do and that depends on confidence in Australia, markets, quantitative easing and so forth.

If you look at the second half of last year which was very strong in both markets, the February to April period was quite buoyant around the world and here in Australia as well. We saw a bit of extra volatility come into the market place, then a bit more uncertainty in the May/June period and so that dampened enthusiasm a bit again.

A lot of that volatility has gone again now so as I said to the analysts, if I could predict what would happen in the next six months, I would probably start my own market. But you don't know. But, how does it feel for an investor? It probably feels OK. Doesn't feel as good perhaps as it did in January, February, March, April 2013 when the world was feeling very good, but it might be OK. Your insights are literally as good as mine. I know it is a non-answer but I think that is the reality of markets.

Brett Cole from Business Spectator.
Could you tell me why you perceive capital raisings have been somewhat lower than the previous year on the market, given that the market has risen and you have launched these new initiatives which you have talked about to make it more flexible for smaller companies to raise money on your exchange?

Elmer Funke Kupper, ASX Managing Director and CEO:
If you think about capital raisings, an important part, there are two types of capital raising. There is initial capital raising, that is IPOs. The IPO market in Australia is traditionally driven by the mining industry and I think you all know what is happening with mining exploration, so the mining industry is under very significant pressure including falls in commodity prices, higher costs of exploration and reduced risk appetite from investors.

You add those things up and you have got yourself a real challenge. What we are doing with our initiatives is to make it a bit easier for those companies. However, the fundamentals such as lower commodity prices, higher production costs, and lower risk appetites are things we can't deal with. The world has to deal with those.

There have been some suggestions by the mining industry that now is the time to put in place an exploration tax credit so we get new exploration. I quite like that idea to be honest. Recognising that I am not the Treasurer that has to fund it but I think it needs a shot in the arm if we think five to seven years out.

The second type of capital raising is secondary capital raisings. What we saw in 2009 and 2010 was a significant deleveraging by corporate Australia. We had record capital raisings in the 2009 and 2010 period at the early phase of the global financial crisis. Corporate balance sheets are in tremendously good shape at the moment so there has not been a lot of activity in secondary capital raisings.

Most of the capital raisings we see are secondary capital raisings, including our own for that matter. That also includes IRESS. For us to see a significant shift in capital raisings, we have to see more corporate activity, M&A activity, mergers/demergers acquisitions or we have to see a revival in mining exploration or risk appetite. I think if you look at the economics of that right now, I think that is difficult.

I am a big fan of seeing what we can do to support that industry. Not because that is going to make a difference for capital raisings in the next 12 or 18 or 24 months but because we need to build the mines that will give us new resource income in seven or eight years and it takes seven years to build a mine and get it to be productive and cash positive. These are big investments so I like the idea of a tax credit. If I compare Australia and Canada, our rules and the things we have changed, have put us in a very strong position compared to Canada. The one thing we don't have and they do have is the tax credit scheme. What I hear from Canada is that the scheme is working for them, so you wonder why it wouldn't work here. The challenge is that Treasury does not have a lot of cash to spend so it may not be a priority.

I would say it could be quite a productive investment but remember, it is not up to me.   It is up to whoever the Treasurer might be in a couple of weeks' time.   So my voice is perhaps interesting, but not all that relevant.

I think that makes it exactly one o'clock, thank you so much.