**Edited Transcript of ASX HY 2014**
**Media Q & A**
**13 February 2014**

*Hi **Shaun Drummond from the Financial Review**. Given you said that the last half was a very strong period for IPOs and it's not going to be as strong this half, what are the factors that are bringing it down; and so is that going to have a big effect on the next half's revenue given how important it was for this half?*

**Elmer Funke Kupper, ASX Managing Director and CEO:** Well I think it was very helpful for one part of our business which is the listings business. Listings and Issuer Services is about 25% of the business and if you are going to look at the listings business it comes down to probably 70-80% of the business; and then annual listings fees which is a large part of it, secondary fees and IPOs. So IPOs are not that big a part of it. But of course we saw a big kick so it has been helpful for our growth even though it was not necessarily a big base. So it has been very helpful. I read the media as much as you do around what people's plans are and of course we saw a big rush in the first half, that's been very helpful. Markets continue to be quite positive so we are hopeful that others will come to the market. But I have to recognise it is not my decision. It is the decision of companies and whether they do it in the second half of this year or the first half of next year, you know that is anybody's guess. So we think there is still a pipeline, largely driven by public information that I have and that you have but that pipeline doesn't quite look the way the first half looked because that was particularly strong. In the end, the growth in IPOs if you do the math in this document was probably $6 million or $7 million of our revenue growth. Helpful but thankfully there are many other pieces of revenue that drove our growth as well.

*Of those, what were the most important?*

**EFK:** The most important revenue growth for the company, I think if you go to page 6 of the document, you can see the waterfall; it's really the left hand bit of it where you can see the $7.9 million, 10.7%, that is the IPO contribution. Everything else is the rest of our business, so a well diversified business, that thankfully produced growth across the board.

*But does that mean that was the biggest single …?*

**EFK:** The biggest single dollar number was the improvement in listings, but there are two things in there. Strong IPO, some weaker secondaries. And you can see that if you go to page 8, here you can see it kick up, the light blue bar that is kicking up, that is IPOs and which is very positive. Secondaries if anything were a little soft and there are swings and roundabouts. In past years IPOs were soft, the secondaries were strong and that's swings and roundabouts. I think if you look over the last 5 years the Australian market appears to be good here, but half on half these things can swing. They swung the right way.

***Andrew White at The Australian**. Just wondering, this time last year we were talking about a lot of regulations regarding HFT, trying to curb that sort of activity, bringing more back to the lit market. Can you give us an overview of what impact those regulations have had on the market and on your result?*

**EFK:** Yes. I have always said that ASIC has done a very good job in what is now a highly fragmented marketplace. If you step back from it - a policy decision was made a number of years to create alternative trading venues in the Australian marketplace. That has fragmented the market and fragmentation is the enemy of efficiency and fragmentation is helpful for growth of high frequency trading and pushes people into dark pools. So that is the background that we - if you look at our submissions over the years - have always said and that is what we have seen overseas and here. We have always said that ASIC has done a terrific job in managing that new fragmented environment to make sure that we don't end up the way the United States has ended up where retail trade doesn't go through the exchanges anymore, and at its peak high frequency trading was 70% of activity. And the reason we are not in that situation is because ASIC has been proactive in putting in place a number of regulations that put a box around this. I can give you lots of examples but the one example that I think has been very helpful - in Australia we don't have maker-taker pricing where you [exchanges] can pay for liquidity. I believe that in America that is the single most distortive economic incentive in financial markets in existence. I think Jeff Sprecher, who runs ICE and has bought the New York Stock Exchange, recently said that payment for liquidity is a dangerous thing. We don't have that here because ASIC has been proactive and said that is not a practice we like. So they have looked at the rest of the world, looked at what they liked about the competitive environment, looked at what they don't like about fragmentation, around growth and dark execution, high frequency trading, and they have taken very practical steps that are not difficult to implement for everyone, that manage that process. As we sit here today we have no particular concerns about high frequency trading and we say that because when we look at the behaviour of everyone in the marketplace, the behaviour seems to be relatively consistent with the interests of investors. Dark pools have come back a bit and the reason they have come back a bit, this is highly technical, ASIC last year implemented a new control called Meaningful Price Improvement. If you want to take a trade away from the market you have to give the client Meaningful Price Improvement. That has pushed some liquidity back onto the lit markets, particularly in the retail space. So these are very practical, very positive, not onerous controls that have managed it. It is an ongoing battle because innovation never ends. But as we stand here today out of all the regulations that we focus on, that one we are not spending a lot of time on because I think it is under control and we said that last year. I think we can afford to pause, let the markets run for a while and continue to watch. And I think that is what ASIC is doing as far as I can see and I think it is the right thing to do. All our focus is on the regulation that comes globally, so regulations in derivatives in the OTC markets. That's where we focus on because Australia, under the G20 commitments, has to comply with the highest global standards. The good news is that we do, our financial stability standards have been signed off, our capital raising puts us in a good position and we are receiving the necessary approvals domestically and in Europe and the United States to launch that business. So our focus has been driven in the last 12 months on that, which is exactly what we were expecting 12 months ago and that has been very positive. I think there might even have been a presentation 12 months ago where we said that our regulatory attention is shifting from domestic to international. That is exactly what happened and we are on track. I know that is a long answer but I think it's important because these regulatory requirements are complicated and they have a material impact on the way financial markets operate. Most of it is about global regulations these days, not local regulations.

***Jamie Smyth from the Financial Times.*** *You mentioned international expansion there; are you opening an office in Singapore and can you give us a little bit of the rationale for what you are doing in Asia?*

**EFK:** We should have Peter Hiom, since he started this one, answer that question. But let me try to answer it. I think we have all jumped the gun a bit on this one. I think the reality is that we have a number of clients who trade our markets in Australia from overseas. They are as far away as Chicago and Europe, and they sit in Hong Kong and Singapore and elsewhere. So we spend a lot of time these days with clients as we get closer and closer to them and we spend an awful lot of time on planes. I think the idea here is that we should look to put some people on the ground. That allows us to service clients who trade our markets more easily and more efficiently. Nobody has been moved up and we will work with the local regulators, in that case the Monetary Authority of Singapore, and our clients to make sure that everyone is comfortable if we go down that path. But what you should think of is a minimal presence that saves airfares and makes it more efficient to service our clients rather than a wholesale expansion into the Asian marketplace. Our market is very popular with international investors and it is an efficiency measure, nothing else. It hasn't been done, we will work with the regulators and clients to go down that path if everybody agrees. But the reality is that it is not a big deal and so that one we should park as a major initiative for us. I know you were very interested in it, but I am not showing up on Magnus's doorstep just yet. That's not what it is about.

***AW:*** *You have increased the cash in the balance sheet this half. Can you give us an idea about what you intend to do with it and how quickly is it going to be deployed?*

Well we have raised a substantial amount of capital and we are debt free, and so by definition that means we are in a very strong cash position. If you take a full risk view of the world we have a little over $100 million in surplus sitting there, for a company of our size that's actually not that material an amount, so we are very comfortable with it. There are no new plans to deploy additional capital or cash; we are just going to run the business the way we are running the business. We happen to be debt free. Remember what we did last year. We raised capital last year because we believe that the clearing houses that manage the systemic risk of the Australian marketplace need to be equity funded. So when there was a step up in the requirements under the G20 commitments, we funded all of that with equity. That is the right thing to do. We got a credit rating for the clearing house AA- and we got a credit rating separately for the group, also AA-. The reason we did it that way is that, the way you should think about these businesses, is that a clearing house is a critical financial infrastructure for the Australian economy and in that kind of activity you almost apply financial institution solvency-type thinking to the business. It is about solvency. So having strong equity capital in there is right and we look at the company, ASX Limited, it owns the clearing house. The holding company is a commercial legal entity like any other company, there we apply the normal metrics you know - debt to EBITDA ratios - the normal things that commercial companies look at. We happen to be debt free at that level as well which is sort of an accident of history and we got asked the question this morning by an analyst, you know how much debt capacity do you have, and there was a bit of an answer in the S&P release about our company where they talk about the debt to EBITDA ratio. There is no debt to EBITDA ratio because we have no debt. But it basically says you get to 1.5 times debt to EBITDA - that starts for a AA company get to the edge. That gives us a substantial capacity, although we don't have any plans to deploy it as we stand here today. But that is the way the math works. So the clearing house is critical for Australia, its future and investors and the infrastructure. It is a solvency-type approach like a bank would think about it; although it works differently from a bank, it is the same type of thinking. The group is more about normal abilities to service debt on an ongoing basis, and normal credit ratios apply like any other commercial company in Australia. We just happen to be debt free today. And a lot of our raw capital is in the clearing houses these days which is where it belongs because that is where the risk is being taken.

***AW:*** *Can you also give us a picture of what sort of returns you think you are going to get from the OTC business; I mean you have put a lot of capital into those clearing operations; how much do you expect to get back over the next few years?*

**EFK:** We haven't disclosed these numbers so I am not doing that here. It is always amusing when people say you run a monopoly and it is all outrageous - our return on equity is between 10-11% which is not a particularly high number. Our return on equity in cash equities clearing and settlement, which is the thing that people seem to complain about is running 11-12% - 11-ish% for clearing, it's about 17-ish% for settlement. These are not outrageous returns on equity at all. When we think about the capital that we injected, that capital is not just there to support the OTC clearing business that we are building. Because, remember, we put our OTC business, which is the new business and our existing futures business, which is this big machine we have, into one clearing house, so the capital is there to support both activities. In many ways you could argue the first injection, the injection last year, was really to support our existing revenues. It was a dilutive capital raising. We are very pleased with our results in the first half but the capital raising itself was dilutive because it was funding an increase in the capital requirement for an existing business. What we call in our industry Cover 1 went to Cover 2 - it's a higher standard. It means more equity. It also gave us the opportunity to build the OTC business and because it is in one capital structure, it consumes the same capital. It is the same clients so you can't put one number on OTC and look at a return; you have to look at the aggregate because it is all sitting in one clearing house and it is one business.

***AW:*** *Question off microphone:*

**EFK:** What we said was we'll first launch dealer to dealer - that is being activated. Client clearing will come in April and clients will start to connect. What happened last year was quite interesting. We were ready in July which is the promise we gave our clients. The first clients connected in and the last clients connected December, right by the deadline. So across a marketplace it can take 4 or 5 months for people to connect to a new service. Some people were very, very well advanced and ready, excited to do the business as well; other people take their time because they have got their own priorities and technology. We will be ready to launch client clearing in April, people will start to connect - the end clients - we are talking about Australian investors, not the banks, will also start to connect to that service and start to use the facilities that we create because a lot of what we are building in the next 6 months is not for the brokers and the banks, it's for the end investors. Client clearing is a significant new risk management control for the benefit of the end client because rather than their collateral being pooled with everybody else, we can now recognise their collateral separately and if they wished they can hold it at the clearing house. This has come on the back of Lehmans and MF Global where end investors were exposed to very significant systemic risks. We are saying we are going to help them manage that process. After April that will start to happen and we will see how it goes. Our job is to put us in the best possible position to compete for that business and get it and keep it here in Australia and that is what we are doing. How quickly that goes we will see. We have got some ideas ourselves about what that might look like but we will see what happens.

***SD:*** *But even if you can't give figures can you give any idea of how significant that OTC part of it will be as a proportion?*

**EFK:** Well that's a very good way of asking the same question so I can't answer it. But I think I have heard one other exchange saying it's a business we need to be in.

We are investing $20 million in the first half, call it $40-45 million over the year, two thirds of that right now has gone to those kinds of initiatives, that's over 3 years. You can see the capital we are investing into this on which we hope to get a return. But it really depends on liquidity and that's very hard to predict. You can say I am going to get this business but you might get all of it, you might get none of it. If you count on half of it or a third of it or two thirds of it that is unlikely to be that number so it is very, very hard to predict what kind of return you get on the investment. The good news for us here is that we can develop because we are a strong, large business, and we have a lot of infrastructure. We are able to develop all of these services within our existing CAPEX envelope and maintain a 90% dividend payout ratio. If you think about shareholders, in the short-term it is actually relatively low financial risk to make these investments and it gives us the upside if the liquidity arrives and that's how we look at it. It's very hard to make predictions about this and so we won't. What is important is that if we don't build it, it won't be built, and it's critical for Australian investors so we are building it. We can do it within our CAPEX envelope and then we will see how it goes and that is the reality, that's how a lot of exchanges look at it frankly.

I think I might turn to questions on the phone.

***Aaron Woolner of AsiaRisk.*** *I wanted to go back to your point about developing the market infrastructure in Australia, particularly the points about the cross margin benefits with the futures business and also the collateral optimisation from Austraclear. In terms of providing competition to your international peers, which of those two developments is the most significant and what do you see as the biggest challenge from your international competitors in developing a strong clearing business in Australia?*

**EFK:** I think they are both important, so both the cross margining benefits that we can give to banks in both the futures markets and the OTC markets – they're material because they are big markets - and collateral management is not just benefiting those guys, it is benefiting everybody both exchange-traded and OTC markets. They are both important and we must have them both. The good news is we do have them both. I don't think we have ever disclosed the relativity between the two but for us it is important to have both. We know there are significant benefits for the overall market but a client doesn't look at the overall market; the client looks at the client and they only care about the efficiencies we can bring to them and that's where it might fluctuate. Some clients get significant cross margining benefits, other ones get lower cross margining benefits. Everybody should get a benefit from collateral management service. So that is why it is so important to do everything here and as a fully integrated exchange, owning the depositories, owning the trading platforms, we can develop those services where others can't. Others might say we have greater scale because we are sitting in a larger financial centre, fair enough. I think what we are trying to do is give the ultimate risk protection to the end investor which allows them to have their risk in collateral managed in Australia and make that an attractive proposition to the investment banks who deliver that service to them by giving them the maximum efficiencies. If we do both we at least have a competitive offer in the marketplace and then we will see how it goes because we don't have the scale like London and Chicago. We have a solution that we think is very important and from a systemic risk perspective if you are an Australian investor and you have access to client clearing, which means your position and your collateral can be segregated from everybody else and it can be held at the clearing house level, all other things being equal, why would you do it overseas? The MF Global experience has taught us that that risk is real and that benefit is real. That is how I would look at it if I was an investor. We know that big investors in the United States are saying our risk and our collateral gets managed on American soil because why would you do anything else? That's the investor's perspective. If you take an investment banker's perspective he says well hang on a minute, we need to create efficiencies because we need to do all this, we are under the same global regulations, right, we need more capital, we need to get efficiencies - so for them it's about getting the maximum efficiencies. Some of them say I prefer to have a single location, put everything in London, put everything in Chicago because there I can get the greatest scale. What we are trying to do is give them a very efficient solution so they can give the end client what the end client wants. There is tension between the investor's objectives and the bank's objectives. They are different. Investors would like it done domestically, all other things being equal. Investment banks need scale and efficiencies. What we are trying to do is give both of those constituents what they want. That is what we have built and we will see how it goes. This is one of the ironies of global regulation - they put forces in the marketplaces that actually create tensions between different participants in the market; there is tension between the end investors and the banks. I am not criticising any of those parties, it is just a reality of life that needs to be solved. What we tried to do is solve it by being as efficient as we can be. That's why all those solutions have been built.

Right next question.

***Miranda Brownlee of Sterling Publishing****. How does the ASX plan on generating revenue from the mFunds settlement service?*

**EFK:** The revenue comes from two sources, just like listed products - and we should emphasise this is not a listed product. People still apply for and redeem funds, that relationship is not changing. But we make fees from the funds being admitted to ASX; think of it as a listing fee of sorts, a quotation fee. And if people transact we make some fees. In that sense for us there is not much different from any other product. The big benefit here is for the fund managers and the distributors who can take a very large amount of cost out of the system that is currently largely paper based. Plus it opens up distribution because for consumers today it is actually relatively difficult to access the unlisted funds market, which is very large in this country. It is difficult to find and it is difficult to execute and we are going to simplify it in the hope that we can see growth in that sector that we haven't seen before. I sometimes call it our gift to the fund managers and the brokers, and in between we hope to make a little bit of money as well!

No more questions on the phone, anything else that anybody would like to discuss here? I thank you. We are broadly on time, and look forward to seeing you again later in the year. Thank you.