



Edited Transcript of ASX FY 2012 Analyst Q & A

16 August 2012

Nigel Pittaway here from Citigroup:

A few questions, starting on the technical services, it's obviously clear you have got quite strong plans for revenue growth in that division. In terms of the breakup you have given on that detail page, can you highlight where we can expect to see the greatest part of the growth profile?

Elmer Funke Kupper, ASX Managing Director and CEO:

Well, we don't give an outlook about where the growth might come from but I think what's interesting if you look at the last 12 months you get this noise in the media about ASX benefiting directly from the change of market structure and look at the technical services of business and so forth. I think if you look at the growth here, actually quite a large part of the growth has come from our derivatives business as clients co-locate and we sell liquidity cross-connects for their business as well so it is not just about equities business, it's also about our derivatives business in the last 12 months that has grown quite strongly. There is still quite a bit of space in the data centre and we are slowly starting to fill that up. I mean 59 clients co-located is a very good start and we have got several active discussions with clients that co-locate with us because of course the nice thing about the data centre is that it could be the sole place for the marketplace in Australia and we'd want to consolidate data centres around Australia. This is the place we think it can go and we can be very competitive there so without giving an outlook about us Peter Hiom may also comment on this.

Peter Hiom, ASX Deputy CEO:

I think you have probably covered it there. I think we see this as much to do with our derivatives business as our cash equities business and the consolidation of data centres and cost reduction for our clients is foremost in their minds and we think we have got a pretty strong value proposition for them in accessing those cost reductions, whether that's networks or whether it's in the data centre itself.

Nigel Pittaway here from Citigroup:

Can I ask does formalisation of best execution give you greater opportunity to bring on more co-location clients, do you see that as a potential catalyst?

Elmer Funke Kupper, ASX Managing Director and CEO:

I don't think we see that as a particular driver, no. I think the drivers there today, and as I say for the derivatives business, of course that's not really directly connected to that.

Nigel Pittaway here from Citigroup:

Second question on Aqua 2, do you have a launch date for that or is that still subject to the regulatory approval and is there enough sign-up from brokers, life fund managers and also what about platform operators?

Elmer Funke Kupper, ASX Managing Director and CEO:

OK there's a lot in that. Amongst the 50 plus partners, we have several very large fund managers, without naming names publicly here, we have registry businesses and we have several retail platforms and so I think we have enough to launch. We think this could be a real game changer. Usually with all these things you actually try to make a process that exists today, if you don't have to take it through the process to actually put it in place and the regulators you will find the devil is always in the detail so we are working very closely with ASIC to resolve those and get this launched. And we were hopeful that we can launch the first products in months rather than years obviously but whether that is this side of Christmas or after Christmas is not entirely in our hands. We are ready, many of our clients are ready and we are just getting through the regulatory approval process now which is a highly technical process and we respect that ASIC has got a job to do here but we can't complain about the interaction. We just have to get through that process and I think we will get it done so I think some time this financial year we will launch the first products. I think this could be a real game changer for the way managed funds are distributed in this country and I think this is part of the reason for the enthusiasm by our clients. But of course you have to get it done and we just have to go through the regulatory approval process.

Nigel Pittaway here from Citigroup:

One final question, it does seem as though you have got a lot of new product launches held up by regulatory approvals and you have mentioned obviously there is a lot on the regulator's plate in terms of market structure etc. Do you think the regulators are overloaded? Is that part of the issue or are there really genuine concerns on your proposals?

Elmer Funke Kupper, ASX Managing Director and CEO:

No I think I can be pretty direct. We have been very pleased with the interactions but it doesn't mean that you always get what you want. I mean that is a different thing. But I think what we get is what we can live with and what we think will drive them.

At the end of that, it's really interesting. If you look at the change in the capital raising rules for example, from where we started to where we ended up, I think that is a reasonable compromise. We got our very first request from a company on the first day it was launched so it adds value. We always ask ourselves, if these things get watered down because there are regulatory concerns, our job is to make sure that it continues to add value to our clients, otherwise why bother. And I think so far we have been very pleased with that. If you ask me if regulators are overloaded, I think ASIC will tell you they are very, very busy and stretched with everything that is coming down the pipe but I can't complain about the willingness to not just look at controls but also look at things that give us growth because I think whether it's the RBA, ASIC, ourselves, the Government, we all recognise that if we don't have a vibrant capital market there is nothing to regulate and so I can't complain about this. The reality is also for us when we look in the mirror we have created this list in a very short space of time. I wish, looking in the rear view mirror, that we started some of these things several years ago in which case it would have been more nicely paced. I can't change that, but I can't complain about the attention we are getting and the support but it's a process, I mean these things, each individually can take months and that's just a reality. So the idea is to have them all the time on the go and just over time this starts to roll and becomes something that I think becomes a more natural process. That's just really where we are.

Russell Gill from JP Morgan:

Just a couple of questions, firstly on Cap Expenditure. I appreciate the break-out you have now given particularly in relation to the data centre, the Cap Expenditure that came through. A question on the refresh vis-a-vis the upgrade/initiatives of that Cap Expenditure that came through and then going forward, how much is actually generating incremental return vis-a-vis the changing market structure? I just want to get a feel for what the staying business Cap Expenditure going forward is and next year you are forecasting for \$30-35 million, what's really involved in that Cap Expenditure and what's the pay-back view or is essentially a change in market structure requirement going forward?

Elmer Funke Kupper, ASX Managing Director and CEO:

Okay, I think you will find that the refresh numbers, if you look at page 18, the refresh numbers are relatively stable. I mean they vary a bit over time but they are not enormous numbers and so I wouldn't expect it to change very much. A lot of this goes into new initiatives. We are doing quite a bit of work to upgrade some of our central platforms, to update our margining engines, to get ready for collateral management, to get ready for things like OTC derivatives clearing, all of that is in that envelope so I am not going to give you a breakdown between staying business and you should assume that my focus is to make sure that most of it goes to new stuff and I think that's true so a lot of those initiatives require some capital. I have actually been struck by, you know, in some ways how little capital the ASX has spent over time compared to other exchanges and how much it delivers for the capital that it spends. So what's not in here is a major overhaul of our derivatives platform for example which is a much bigger investment, so what you should assume is most of it goes to new initiatives and the larger ones are in the sort of single digit millions. Things like OTC derivatives clearing would be a bigger number if we finally decide to invest in that.

Russell Gill from JP Morgan:

Secondly moving onto the derivatives business, currently the volumes are tracking well down in the last year and your large participant rebates at 6% to FY13, a couple of questions just on that. Is there scope to change that rebate?, Are you comfortable keeping it at 6% and then going forward you highlighted that what's potentially up for competition is purely just the clearing business in Australia but you have got a heavy reliance in interest rate derivatives which don't have the same legal protection as maybe SPI futures. What can you do to change the mix in derivatives turnover and the initiatives in place to do that?

Elmer Funke Kupper, ASX Managing Director and CEO:

OK I will let Peter (Hiom) deal with the second one. We set the large volume rebate. We reset it every year. We have reset it again this year we think at the right level. I think right now everybody is suffering, our clients and us so in that sense its working but I prefer to pay it rather than not pay it obviously and so the next couple of months we will continue to look at that. Yes I am not convinced the degree to which changing that rebate is going to change the market that we live in today and so I think this might be one of those years where we all suffer a little bit. I think that is just a reality but we will continue to look at it because if it could stimulate the market through incentives then of course we will.

Peter Hiom, ASX Deputy CEO:

There is no doubt that we are heavily reliant on our interest rate derivatives, that's been the case for a while though we have been able to grow a healthy electricity derivatives business in the last few years. I am not sure I understand the point you make about the relative safety of the SPI versus the interest rate derivatives business. I

think we are aware of the relationship between our interest rate derivatives business and OTC clearing for example and how the value proposition we can bring to bear there in terms of capital efficiency for our clients is, I think, an advantage for the OTC clearing offering. I think where most of our focus is over the next 12 months is around two things; one is rounding out our equity derivative offering so volatility index derivatives, sector index derivatives particularly in a two-speed economy scenario. We certainly have a lot of feedback around more accurate hedging instruments in equity derivatives and really more generally around the energy portfolio beyond electricity into carbon trading although we are obviously not driving the bus there in terms of when that will come to fruition and other energy products around gas. We are looking at other products as well that we may be able to bring to market. So I think you will see us take some of the principles of OTC markets into energy that we are starting to build in interest rate products. The only thing I would say, is of course the lead time on development and delivery and where real revenue starts to accrue to us is a much more longer term proposition but the work starts, has started already and I think Elmer referenced earlier, it is probably work that we wish we had started a little earlier, but I think we are very focused on now looking to build out particularly in energy but we think there is a rounding out opportunity in equity derivatives.

Arvid Streimann, from Morgan Stanley:

Start on the first question, just on your balance sheet, you indicated that you have no intention to change very strong settings there in the current environment, I think you are looking at one particularly expensive asset at the moment, does that comment there seem to suggest that you are not interested in that asset at the moment?

Elmer Funke Kupper, ASX Managing Director and CEO That comment is unrelated to that asset. You know I can't talk about that asset because we have signed an NDA, so this is about what was related to the ongoing business so I make no comment about that asset or any funding related to that.

Arvid Streimann, from Morgan Stanley:

The second question, just on the data centre, 59 clients which you have got in there at the moment. Any indication as to what portion of capacity that represents and whether when you answer that question, whether that includes or excludes your sort of reservations which you can have on the racks?

Peter Hiom, ASX Deputy CEO:

It excludes the reservations, the numbers you will see at the back of the document, and as Elmer said we are certainly not worried about capacity. The 59 clients are in the data centre now, we have plenty of space to accommodate others but the space in the cabinets within the data centre shouldn't be overly emphasised as the driver of revenue because there are many of the services that relate to the interconnectedness of those cabinets to other cabinets or to our trading platforms that are a key driver as well.

Ross Curran from CBA:

I just felt I would give you the opportunity given the press today to voice your opinion on whether you think high frequency trading is legalised front-running?

Elmer Funke Kupper, ASX Managing Director and CEO:

Wow, I would have a couple of hours to talk about that one. If we have, I want to answer your question in a roundabout way. I think first of all the exchange doesn't create the market structure. We didn't ask for what's been created in America, Europe or Australia for that matter and I think the wool has been pulled over our eyes in some cases as a country more than an exchange.

So I draw this to service our clients, and service our shareholders to the best of our ability and then it goes high frequency traders, so it's not up to me to decide what trading strategy is right or wrong but I think there is a healthy debate about what liquidity really is in the world and whether where you stick your hand in the water, you can keep sticking your hand in and liquidity is real or whether you go through a sheet of water and at the end behind there, there is nothing. I think we should be very careful to judge that all high speed trading is bad because there is, the fact that someone has invested significantly in technology to be smarter and better than someone else doesn't make it bad.

However, where algorithms start to chase algorithms and where the economic incentives for the traders are heavily skewed as they are in America with maker taker pricing, I think we have a market structure that can become very unhealthy for the rest of the market. So for me, when I look at high frequency trading we have to make sure that the economic incentives and the controls around it are aligned with the interest of the broader market. If someone is either purely there to front run or scalp as some people call it then we have to make sure that activity, if you can't prevent it, is minimised and that there are no incentives to do more of that. I think in Australia we are in a much better position than in the United States, thankfully, because the United States is in a terrible position.

What concerns us is that we are much more worried about fragmentation and we understand that there is a relationship between high frequency and fragmentation because fund managers might say if there is a lot of high frequency traders I don't want to be in the market where they are and therefore I go to the dark pools but fragmentation, sometimes we talk about dark execution as our number one concern so in the first half of this calendar year 25% of value traded is what we call dark execution, it was as high as 43%, as low as 14%. It depends a bit on overall market volumes. We think there should be very strong controls to make sure the lit market remains relevant because that is the only market. As we stand here today, it is more media comment for you guys, but as we stand here today the ASX is the only market in this country where every investor can get the same deal and trade every equity and every fund and every instrument. It is the only place and so it has to be relevant and we are very concerned that liquidity is being removed because finance theory tells us that the best way, the most efficient market is one where liquidity gets funnelled to one place by all investors and so we are very vocal on this point. We have put a few very simple suggestions to the regulators that can help address this. We think we are getting a sympathetic ear to it but it's not up to us. But we are not going to go quietly because we think it's genuinely wrong and the noises in the push back we get on our suggestions are so obvious that I think we should just ignore them frankly and get on with it and implement it and start focus on growing our business.

So we feel very strongly about fragmentation. What I think of the situation I think we have to be a little careful that we don't put genuine liquidity provision in the same boat so the measures there are probably a little bit more complex. I think our fragmentation measures are really simple. They are in our submission at the back of the room and we should just implement them in Australia. High frequency, as I say is a little bit more complicated but I think we are in a much better position here because the economic incentives for them are more aligned with the general market than they are anywhere else in the world.

That's our great benchmark because the rest of the world in some cases is terrible on this front and we need to continue to look at that and I think the regulators understand that and will do that. I think the noise you read in the press on high frequency trading right now, I think is understating the problem we have on fragmentation which I think is a bigger problem. They are not unrelated of course, when you listen to the fund managers now they are

sort of waking up to this but it's also not that hard to fix by the way, we should just go and do it and then this conversation goes away. I am clearly passionate about the topic.

I think we now go to the back of the room [for the next question]. I apologise for letting you wait.

Kieran Chidgey from Deutsche Bank:

Just two questions on the unbundling of fees in cash equities. Two parts; firstly whilst you put in place the technology to allow that change to occur, you previously, I thought, indicated that you would be unlikely to implement that pre-emptively ahead of competition. I am not sure if that is the case, but could you talk to us about what has changed in your thinking? Why you are going ahead with that now and secondly, whether or not we can expect a day one decline in clearing fees and overall cash equity fees for your business as a result?

Elmer Funke Kupper, ASX Managing Director and CEO:

The first question is a very good one. I think by the way and it's not driven by that per se because remember we flagged about 18 months ago that we would start to more clearly separate what we actually do for different clients and so this first phase is about that.

That also answers your second question right and I think what we will do, what you will find is that the changes we are making are going to be at my level, you know broadly neutral. This is not the big up or down that you might look for. It is actually just separating our services more clearly and making sure that the fee points that we have are more aligned with the services we actually provide to people in clearing and settlement because remember these fees have not changed I think since 2005 right, so we are talking seven years. The first thing we need to do is make sure that the structure of the fees is broadly right and there will be some changes in fees as a result but at the exchange level that's broadly neutral and the question now around competition and so forth and the level of the fees is then still open. Right, so that question we are not answering in its first phase. The first phase is all about the structure of the fees. Yes there will be some changes to get that done but overall that should be neutral.

Kieran Chidgey from Deutsche Bank:

Then in terms of potential volume implications what do you expect?

Elmer Funke Kupper, ASX Managing Director and CEO:

No, I don't think there are any particular volume implications. I think if you look at our, I am just thinking about clearing and settlement fees and trading fees is a very interesting one and I think again I encourage you to take the submission we gave to the Council of Financial Regulators. There is a plain English summary at the front. But some work has been done around the world to compare different markets around trade execution fees, this is the end-to-end fee, trade execution, clearing and settlement and of course there is a direct relationship between the fees and the size of the market which is not surprising and we are right on the curve in Australia so overall I think the fees are about right but of course regulators might disagree and start to change the market structure anyway. So we will just wait for that.

Chris Williams from UBS:

A couple of questions, more of clarification, but not to go down the philosophical path on the high frequency trading but the accusation for ASX seems to be that you are obviously in favour of it because the economics for you are terrific so I am wondering if you could provide a range of quantifiable estimates of what it actually contributes to your business in either turnover, income or profitability? My second question picks up on your

earlier point about aligning the economic incentives for high frequency users to others in the market and it relates to your planned unbundling of clearing fees. My question, so I believe that one of the considerations you are looking at is fees that may incentivise or favour arguably high frequency traders over others so I just want to clarify that in your unbundling of clearing fees it's not a process to incentivise one group of users over another.

Elmer Funke Kupper, ASX Managing Director and CEO:

Okay, answer to your second question. No decision has been made on that as I have said before so we are waiting. So this first phase that we will do in the next couple of weeks is not related to that so that one is still under consideration as it was before but no immediate plans to do that.

Chris Williams from UBS:

But you specifically said you don't want to create economic incentives that favour one group over another in trading

Elmer Funke Kupper, ASX Managing Director and CEO:

I don't, I am not a big fan of cross-subsidisation particularly if it starts affecting entire market structure. Having said that, the regulatory settings around that are not up to us of course, right, so we have to maximise the opportunity for our company in that environment. So what we are doing at the moment is we are waiting for the environment to settle down and we are waiting to see if regulators make the right decisions around this and if they do, I think a lot of this will start to become less of a focus for us. So we are waiting and seeing right now but I am not saying we are not going to do it. What I am saying is, as we said before, we are waiting with that. So the first is around clearing and settlement and then the next phase is around thinking what we do with clearing fees beyond that, but we haven't made a decision around that. When it comes to the importance of high frequency traders in our revenue line I might refer it to Peter on that one. High frequency trading is somewhere between 15 and 25% of the market?

Peter Hiom, ASX Deputy CEO:

Correct.

Elmer Funke Kupper, ASX Managing Director and CEO:

So that gives you a broad answer.

Chris Williams from UBS:

There are other revenue lines that are implied and not just turnover.

Elmer Funke Kupper, ASX Managing Director and CEO:

Technical services and so forth but remember we also have to be slightly carefully that we don't create artificial economics for our entire market right so as far as the mix of business starts to skew very, very heavily away from traditional investors, retail and fund managers, in the long term that will do a lot more damage than high frequency traders can make us so there is a bit of a short-term/long-term trade-off here.

I don't think high frequency traders are going to go away, I don't think you can stop it because it is very hard to define you know the difference between people who might front run and people who are genuine market makers so it is not an easy question to answer but I think what we have suggested in the consultation process is that some very simple measures can at least start to put a box around it and after that I think we can genuinely leave it

alone for a while and see what the market does. I think right now we have got a level of fragmentation that I think is not right so we are going to address that. The other thing when I think about the incentives, so clearing is one bit and again we are thinking about it but haven't made a decision. The other one is the way our regulatory charges are charged and again I think ASIC has done a better job than overseas regulators on that. You are charged on orders not just trades here which limits the economic model and of course we don't have maker taker pricing here as we have in the US and that is an enormous mistake that they made in the US, the maker taker pricing and we can't make that mistake here and I am hopeful that we won't. I think if we did those things I think it will be okay frankly, we implement the things that we have said and we do those things I think it will be okay and the noise will die down over time. That's what I think; we will have to discover that.

Anthony Hoo from Nomura:

Can I just speak up on the topic of your capital expenditure? I have asked this question previously but you made a comment that you think ASX might be underspending a little bit previously. Your guidance of \$30-\$35 million next year is that sort of the new number and secondly I just wondered if you could give us some more detail around your Capital Expenditure of \$30-\$35million to what extent that will be capitalised as opposed to expensed and how much of that is included in your 4% expense growth guidance?

Elmer Funke Kupper, ASX Managing Director and CEO:

Okay, so our capitalisation policy is not changing and I think it is relatively conservative in line with the economic benefit status, there is no change to that. So the two are unrelated I think is the first answer. We are not giving guidance beyond next year, we don't usually give guidance at all but we don't give guidance beyond next year. The reality is of course if you look at what we have just done with the data centre.

The data centre was \$35 million in its own right. That created a bit of an increase for a period of time; thankfully we won't build a data centre very often. So for us to have another one of those material expenses we would have to replace an entire trading platform. Right now we have no plans to do so. So next year's number is not a bad number, now could it be \$25 million at some point? Sure. Could it be \$40 million? Sure but for it to swing materially if you look at our past history is not; we don't think that is going to happen. And I believe that in part because if you look at the new services that we look to deliver like collateral management, OTC derivatives clearing and so on, a lot of those services leverage our fixed cost platform in the infrastructure that we have so it is actually not all that expensive to deliver those services once you have the base platforms. But if we wanted to replace our entire derivatives platform, that's a different story. Right now we have no plans to do that and if we do we will tell you. So I think it's probably going to be relatively stable.

Any questions from the phone?

Lafitani Sotiriou of Bell Potter:

Firstly when do you expect a response from the clearing and settlements review?

Elmer Funke Kupper, ASX Managing Director and CEO:

I don't know, submissions would have gone in by now so it's probably several months would be my guess, I am looking at one of my folks here to start nodding but that's probably about right.

Lafitani Sotiriou of Bell Potter:

Secondly, the ASX last financial year for the first time provided a nine month revenue update, is this the new norm, will you be providing a three month update following September?

Elmer Funke Kupper, ASX Managing Director and CEO:

You asked two questions there, the first is will we again give a nine month update. I thought it was worked quite well for us this year so you may find us doing it again. I haven't made a decision on that but if you follow me in my past career we did do that every nine months so if I have something to do with it, we probably will. We will not do it after the first quarter so we are not in the mode of quarterly trading updates. That is not our business but we may provide an update of the conference in early May based on the March results. You have got something meaningful to talk about and it was very helpful this year because it just made everybody update their models to reflect the latest data.

Lafitani Sotiriou of Bell Potter:

A third and final question, given the very weak start to financial year 12 and the cost quote guidance of 4%, do you think ASX can beat FY12 in FY13, keeping in mind a current consensus for 7% growth.

I look forward to your models and your analysis. I can't answer that question and if I could I wouldn't. The reality of life for a business like ours is \$610 million of revenues \$140 million of expenses so if our expenses grow by 2% or 4% actually is not the question here is it, it's about what happens with market activity and you are probably as good an estimator of that as we are and both of them could be bad at it by the way in the way the world is at the moment so you have to make your own judgement on that.

Ryan Fisher from Goldman Sachs:

My question relates to collateral management and margining, separately and together. I just wanted to confirm with the work that has been done on collateralisation and with clearstream and that sort of thing, just curious, is that mostly about customer efficiency, maybe stimulating volumes or is there likely to be a revenue impact or any revenue benefit for ASX and secondly just on margining, can you update us on your thoughts about whether margining needs to increase and perhaps even be extended beyond derivatives?

Elmer Funke Kupper, ASX Managing Director and CEO:

On the second one, one of the things that is on the list of our initiatives is cash market margining. This is a trend around the world. We are engaging with our clients on the impact of that. We have modelled it and we look to implement it sometime in the next calendar year, I think if I am correct on that. So that's well under way so the answer is yes, because cash market margining is a trend in the world and in Australia as well. When it comes to collateral management as a service, remember what that service, is about is allowing our clients to optimise the use of the collateral that they hold in either CHESSE or Austraclear.

We will start with Austraclear because our clients tell us that's where we should start and that allows them to pledge that collateral for transactions either on the exchange or in the OTC markets in phase one within Australia and phase two potentially outside of Australia when we connect different collateral pools. The reason our clients are enthusiastic about it is that collateral optimisation is a new skill that many banks haven't had to focus on before the global financial crisis and this can save them quite a bit of money as we broaden the collateral availability and then make the pool that they hold in Austraclear available to it.

We like to make our clients more efficient and we think that is a good thing but of course at the same time we also like to have some revenues ourselves, so what you will probably find as we start to implement these services, we will look at the right way to charge for those services because what you may find is that the collateral mix that

supports the clearing house which is now largely cash, is going to change and that means we have to think about how we charge for the services. We think this could be a win-win because the collateral efficiency for clients could be very substantial, allowing us to get an adequate return for the investment but that's probably all the guidance I can give at this point.

Part of the project in fact is to model that and work that through and what we are doing with OTC derivatives clearing, because that is another one that goes into the mix of course. We are looking at what is the combination of OTC derivatives clearing, so clearing of interest rate swaps on the exchange cross margining between the two clearing houses so our clients get the capital and collateral efficiencies that way and then overlaying the collateral management service and what we are really trying to do is say what is the commercial proposition for our clients in the Australian market from all of those things, at the same time and how do we make sure that we align our incentives with theirs.

I am quite optimistic that we can come up with an attractive solution there but of course we need to do the work and that is exactly what we are in the middle of right now. My guess is that towards the half year results we should have a better idea of the impact of all of that. Have I missed anything Peter (Hiom)?

Peter Hiom, ASX Deputy CEO:

No.

Elmer Funke Kupper, ASX Managing Director and CEO:

That's where we are.

Ryan Fisher from Goldman Sachs:

Can I just ask a quick final one; with the cash market margining do you view that as being incremental with no change introduced in cash market fee structures or it is all got to be changed in sync?

Peter Hiom, ASX Deputy CEO:

No change to the fee structures.

Ryan Fisher from Goldman Sachs:

And potentially a slice on balances ASX will get smaller than futures?

Peter Hiom, ASX Deputy CEO:

Much smaller than futures. We are not talking about a large number at all.

Much smaller.

Richard Coles from Royal Bank of Scotland:

Just wondering, obviously derivatives levels are coming off to some degree and particularly in the first six weeks of this year, I am just a little bit worried about the potential or your views on a potential revenue gap emerging while new products come in and the commentary you always seem to point to the fact you wished you had started some of the products sooner, some of these new products you are bringing in. Are you at all worried about sort of the ability to offset the fall in derivatives that may occur over the next 12 months in the absence of improving equity markets?

Elmer Funke Kupper, ASX Managing Director and CEO:

I wish I could say yes to that answer but I can't and I think the reality of life is when you are an exchange of our size effectively being close to 100% of the market today most of your growth and to the client of course that will come from the market and so although these initiatives are about getting some growth over and above what the market can provide but of course if the market declines materially, new initiatives won't make up for that.

The idea is that markets will return one day and to put ourselves in a good position for when that returns and I can't make any prediction and we haven't made any prediction about when that might be. That is consistent with what we are seeing in other exchanges around the world.

If you look at the results of exchanges around the world with the exception of one we actually come out reasonably well in our core business, we have outperformed many exchanges, some of those exchanges have had quite a pipeline of things happening. So when markets are down anywhere between 15% and 25% the reality of life is no series of initiatives when you have our size will make up for that. There is no silver bullet in that sense, so this is why you need to have a large number of these on the go at a time. It is one of the curses of market leadership, you can never sit still on these things. But if you ask me is that going to save us when we look at the July numbers, the answer of course is no. They can't.

Richard Coles from Royal Bank of Scotland:

I get that, obviously there isn't a silver bullet but I mean the technology area as the data centre is the one big thing coming on line that you know is providing significant revenue uplift. I know you don't comment to numbers on those sorts of things, but to even get a ballpark figure of where you think the revenue growth that business is going to produce in the next year or so because it is a big part of your expected revenue growth now, are we talking I mean 20%, 10%?

Elmer Funke Kupper, ASX Managing Director and CEO:

I am not going to give you any numbers of guidance at all on that. That would be very foolish. We have had good growth in that business right so once the data centre starts to fill up and all our clients use its services you start to see that taper off. How quickly that is, we are not going to give any guidance on that.

John Heagerty of Credit Suisse:

Hi, I hope you can hear me okay You talked of market volatility reducing and that's been the main driver of that. Are all of those factors just driving a decline in volumes, apart from just decreasing market volatility?

Elmer Funke Kupper, ASX Managing Director and CEO:

We think that's an important one, I think the other thing is what we have seen probably since the second quarter of last year is that our clients, particularly where they are global investment banks, have tightened up on both risk appetite and expenses and you see a bit of that as well but if I compare the first quarter of last year to the first quarter of this year, that is a big part of the explanation, the change in volatility.

Last year was an extraordinary first quarter both equities and derivatives but we do think that our clients are tightening their belts as well like everybody else in the marketplace. We think markets are generally very quiet right now, and so when that starts to change I think we will see an uptake in activity levels in both products. I think Nicholas Moore put it very well, we just don't know when that is and you know as much about that as I do.

John Heagerty from Credit Suisse:

In terms of structural versus cyclical, what do you reckon the decline is sort of split, 50 /50 or ..?

Elmer Funke Kupper, ASX Managing Director and CEO:

Oh gee. The most experienced people in the industry always say these things are cyclical but the question is cyclical cycles of course can be very long cycles and so you can have these kinds of conversations for quite a while before the cycle turns.

We have never given an outlook statement. If I look at the state of the world today and particularly with what is happening in Europe and a slowdown in Asia and look at the confidence in the retail sector in particular, I think it will be a while before it returns but your businesses are actually the ones that face off against that. If you look at the Commonwealth Bank results of yesterday that were very strong obviously but if you dig deep into those results to page 85 which I did last night, you will find their equities business with volumes down 24% in their business and revenues down I think it was about 12% so that's the business that faces retail consumers and until they come back I think life will continue to be tough.

I can't predict when that is because that's about confidence. It's about the state of the world, it's about Europe, it's about China, and it's about all the things you read in the press so I can't make a prediction about that. So I think it's cyclical but we have been in a cycle that's been more problematic for a couple of years now and I don't know how long it will take before we get out of that, it depends on whether Europe, we get a real confidence Europe will actually stumble through. That's all I can really say about that.

John Heagerty from Credit Suisse:

Thanks Elmer, just a more specific question, you mentioned on slide 13 that the average interest spread earned of 38 basis points has gone up and that's on the collateral balances, are you sort of moving down the risk categories or is that just because the spreads have widened, and if so, what are you investing in?

Elmer Funke Kupper, ASX Managing Director and CEO:

We do this extraordinarily conservatively as a clearing house so its invested with the most reputable institutions, it's for relatively short durations but there is always an opportunity to sort of play with that a little bit and margins have been a little bit more attractive for us so that's really what it is. There is no fundamental shift in our risk appetite here, we have just been I think smart last year in managing that and we have got some very good people doing it.

John Heagerty from Credit Suisse:

It's mainly commercial CPs?

Elmer Funke Kupper, ASX Managing Director and CEO:

It's mainly TD's in fact.

George Gabrielle from Evans & Partners:

Firstly a point of clarification. Does your FY13 Capital Expenditure include any allowance for development of OTC interest rate derivatives infrastructure and if you required a full build out of new infrastructure for that platform, could that be accommodated within a \$35 million annual Capital Expenditure budget?

Elmer Funke Kupper, ASX Managing Director and CEO:

Ramy you want to?

Ramy Aziz, ASX Chief Financial Officer:

In terms of the FY13, yes, FY13 Capital Expenditure guidance we have given you includes our estimates for what we are going to spend on the interest rate swaps development.

George Gabrielle from Evans & Partners:

And is that for full infrastructure development or just early stages?

Ramy Aziz, ASX Chief Financial Officer: It's enough to get us going.

Elmer Funke Kupper, ASX Managing Director and CEO:

And the infrastructure of course largely exists and these things will be enhanced over time so you don't just spend it once and stop.

Ramy Aziz, ASX Chief Financial Officer: Clearly what we have got planned is enough to get an offering out there to the market. There may be enhancements following that.

George Gabrielle from Evans & Partners:

And the second question on the derivatives segment, some time ago you announced a review of derivatives pricing and since then you have only repriced equity index options in May of this year. Can we expect any more announcements around the pricing reviews in other derivatives product segments?

Peter Hiom, ASX Deputy CEO: Well I think we also obviously reset the large volume rebate every year so in a sense that is us continuing to manage the pricing of the futures business. Aside from that we wouldn't make any comments. There are no current plans to radically change pricing, no.

Elmer Funke Kupper, ASX Managing Director and CEO:

I think that concludes the phones. Thank you both in Sydney and on the phone for joining us.

A difficult environment for exchanges around the world, a robust result in that environment and we are putting our head down this year to make sure we get through this year as best we can in light of what we are seeing in the market at the moment. So thank you for joining us.