Attention ASX Company Announcements Platform
Lodgement of Open Briefing®

ASX
AUSTRALIAN STOCK EXCHANGE

open briefing
corporatefile.com.au

Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Date of lodgement: 29-Jul-2005

Title: Open Briefing®. ASX. MD on FY05 Profit Result

Record of interview:

corporatefile.com.au
The Australian Stock Exchange Limited announced a 31.2 percent increase in normal NPAT to $108.5 million. What underpinned the strong growth rate in FY05?

MD & CEO Tony D'Aloisio
Growth has been across the board over the past 12 months. Our Listings business was buoyed by pricing changes and the overall lift in market capitalisation and revenue increased 32.4 percent to $71.5 million. Equities, Derivatives and Market Data also experienced relatively strong growth and recorded revenue increases of 11.7 percent, 13.7 percent and 9.9 percent respectively. Overall, normal operating revenue grew 16 percent to $279.7 million. Expenses increased only 3.3 percent to $137.5 million. Our cost-to-income ratio is now only 49.2 percent.

corporatefile.com.au
Growth in Direct Market Access (DMA) trading has been highlighted as an element of your future growth strategy. Can you explain DMA trading?

MD & CEO Tony D'Aloisio
DMA trading is straight-through processing where clients trade through broker 'engines' without human intervention. DMA trading can be used for a variety of trading activities but our focus is algorithmic trading and statistical arbitrage.

Algorithmic trading is any quantitative model that automatically executes a specific order in accordance with a set of rules. In this form of trading, a lot can occur and very quickly. We anticipate DMA trading will grow but it's just one element of growth going forward.

corporatefile.com.au
DMA trading is said to represent 40 percent of total market activity in the US and UK versus only 5 to 7 percent in Australia. Why is the DMA market share in Australia so low? Who are the main users of DMA in overseas markets?

MD & CEO Tony D'Aloisio
DMA trading is being driven by global investment banks. They have developed extremely sophisticated DMA models in the home markets. These are now being rolled out globally. Our challenge is to ensure that we have the appropriate pricing model, options for connectivity and market structure to attract DMA business and also provide great service to existing customers.

Algorithms are used by the full range of institutional investors: pension funds, hedge funds and investment banks. Hedge Funds are also big in statistical arbitrage. In our market, most DMA business comes from offshore.

corporatefile.com.au
What drove the growth for DMA trading in international markets?

MD & CEO Tony D'Aloisio
I believe the growth has been demand-driven. Exchanges do well to anticipate demand and implement supply-driven strategies but market participants tend to drive demand.

corporatefile.com.au
You've said you will reveal a new pricing structure by January 2006 for implementation in July 2006. Is a new pricing structure a pre-condition to growing DMA trading activity?

MD & CEO Tony D'Aloisio
What's really driving the change to our pricing structure is, firstly, its complexity and, secondly, the international comparative benchmarks. It's extremely important for an exchange to keep trading costs low as it tries to attract capital.

Our pricing review is about international benchmarking, comparison and simplicity rather than DMA-specific pricing. But looking at the international model and the growth in DMA activity inevitably leads us to also consider the DMA side in our pricing model.

corporatefile.com.au
Where do ASX transaction costs rank on the cost curve versus other stock exchanges?

MD & CEO Tony D'Aloisio
The cost surveys related to transaction trading and clearing indicate we're below the average of comparative exchanges. But as part of our pricing review we're seeking to obtain better comparative one-on-one analysis with some international exchanges and those in our region.

corporatefile.com.au
Australia represents only 2.4 percent of the world stock market. To grow from this base and attract more capital, will transaction costs need to be in the lowest quartile?

MD & CEO Tony D'Aloisio
I don't wish to pre-judge our study and say where our costs will end up. But because of the relative size of the Australian market, we've got to make every post a winner; we've got to have first-rate supervision, low cost of capital, and low compliance costs. If we've covered all those bases, we won't give customers any reason to shift offshore.

corporatefile.com.au
You've said in the results announcement that ASX does not have a capital surplus and therefore a capital return was not announced. Can we assume that decision is a medium-term decision and shareholders will therefore need to be satisfied by the 90 percent dividend payment ratio in the foreseeable future?

MD & CEO Tony D'Aloisio
We've taken a realistic, commercial overview over the coming 12-month period and concluded that we wouldn't have excess capital to return to shareholders. Driving that decision is our reasonably conservative approach to capital management, given the uncertainties around the completion of our restructure, how we'll handle our premises costs, the impact from the adoption of international accounting standards and concerns as to whether the $110 million in the clearing house will be adequate for clearing purposes. We also had to consider our ongoing operational need for capital.

corporatefile.com.au
Why isn't it possible to gear up ASX and therefore release capital?

MD & CEO Tony D'Aloisio
When you look at cost of capital and what we're doing, it's very marginal at this stage to further gear the balance sheet. In addition, the introduction of International Accounting Standards may result in significant potential liabilities appearing on the liability side of the balance sheet which would give the appearance of increased gearing. Although the liabilty would be offset by an equivalent amount of assets, there may be a perception that gearing is already substantial.

corporatefile.com.au
You announced that you'll retain your investments in Orient Capital and IRESS. The 50 percent stake in APRL remains under review. What's the strategic rationale behind keeping Orient Capital and IRESS?

MD & CEO Tony D'Aloisio
Our wholly owned subsidiary Orient Capital operates separately and has the opportunity to develop additional services for listed companies and market participants. We're pleased with the performance of IRESS and aim to keep our holding for strategic reasons.

corporatefile.com.au
Thank you Tony.

For more information about the Australian Stock Exchange Limited, view www.asx.com.au.