

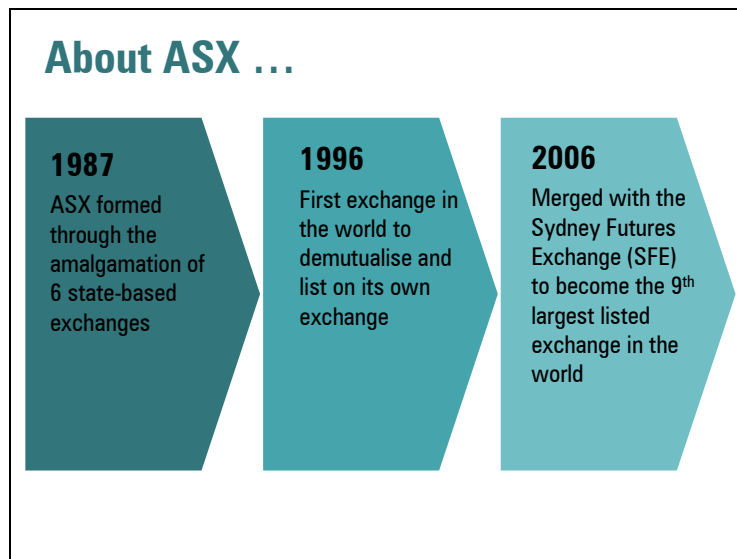
“On the International Realignment of Exchanges and Related Trends in Self-Regulation”

**by Eric Mayne of ASX Markets Supervision, ASX
at the Chief Regulatory Officers International Symposium
Tokyo, November 6th 2006.**

1. Introduction

- 1.1 Good afternoon everyone. I am delighted to be participating in this conference. Five years ago it would seem unlikely that there would be a conference specifically for regulatory heads of exchanges but today, following on from South Korea last year, we have about 500 people in this wonderful city discussing issues which are both topical and challenging for exchanges around the world.
- 1.2 May I add my congratulations to the Tokyo Stock Exchange for putting together an impressive program and providing me the opportunity to speak on self regulation at ASX.
- 1.3 For this panel discussion, I would like to provide a quick overview of ASX, share the experience of the evolution of our regulatory and governance model since demutualisation, and explain briefly the implications of the recent merger of ASX and SFE, leaving it to the panel discussion to expand on these and other issues further.

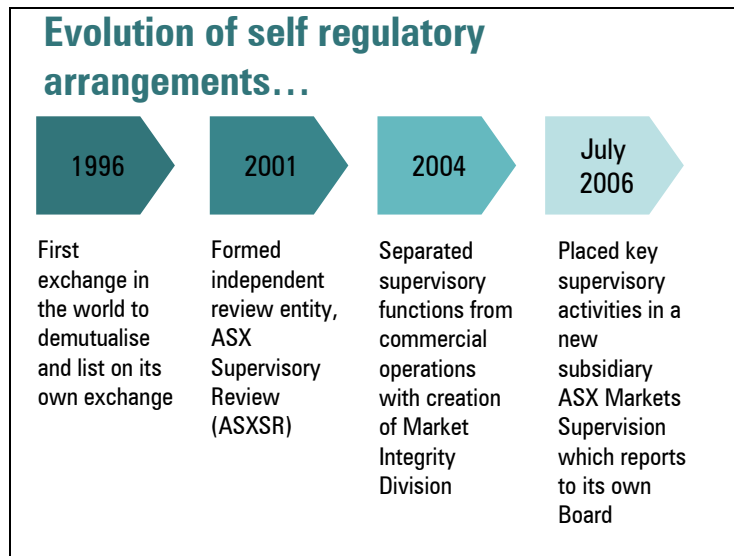
2. About ASX



- 2.1 ASX was formed in 1987 through the amalgamation of 6 state based exchanges.
- 2.2 In 1996, ASX became the first exchange anywhere in the world to demutualise and list on its own exchange. According to WFE statistics, as at December 2005, ASX was the 12th largest equity exchange in the world as measured by market capitalisation and the 4th largest in the Asia-Pacific region.
- 2.3 On July 25th of this year, ASX and SFE (the largest interest rate futures exchange in the Asia Pacific) successfully completed a merger to become the 9th largest listed exchange in the world. By doing so, ASX became the 3rd exchange in the top 10 of listed exchanges to take the commercial decision to merge with a futures exchange. It is now a fully vertically-integrated exchange providing trading, clearing and settlement services across cash and derivative products in equity, interest rate and commodities.

2.4 Given its track record, we would like to think that ASX is in the fore front in the changing landscape of exchange re-alignments.

3. Evolution



3.1 In keeping with these changes ASX's regulatory and governance structures have also evolved.

3.2 In 1996, when ASX demutualised and listed, the "two-hat conflict" (or the perception of conflict) arising from being a for-profit exchange was not such a topic for debate as it is now.

3.3 At that time, ASX's exchange regulatory functions were integrated within what is now termed its "commercial" activities.

3.4 In 2001, the ASX Board, being of the view that the outstanding supervision of ASX markets, good corporate governance and transparency are important in underpinning the confidence of investors and market participants, established ASX Supervisory Review Pty Limited (ASXSR), a wholly owned subsidiary of the ASX, which operated independently of the

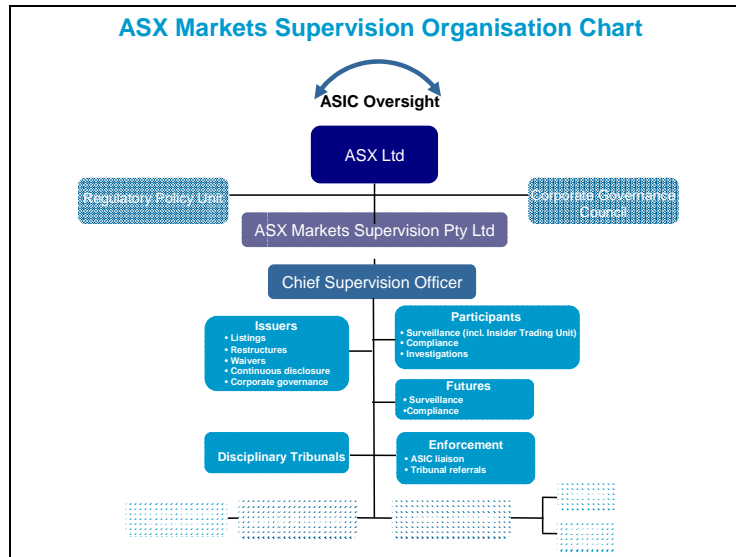
ASX Group's board and management.

3.5 ASXSR's role was to assess if the ASX Group:

1. adequately complied with its obligations as a market as well as clearing house operator;
2. conducted its supervisory activities ethically and responsibly;
3. funded these activities adequately; and,
4. maintained appropriate controls concerning employee and commercial conflicts of interest.

3.6 Each year ASXSR would provide its recommendations to the ASX Board. ASXSR did not oversee the day-to-day supervisory operations of the Supervision Division.

3.7 In 2004, ASX separated its supervisory functions from its commercial activities and placed them within a single division, the Market Integrity Division headed by the Chief Integrity Officer - a position which was later re-badged as the Group Executive Market Supervision. This division was separated both physically and in terms of information flow from the commercial areas of ASX. However the Head of Supervision continued to report to the CEO of ASX.



3.8 On July 1st, 2006, ASX took the further step of placing all its key supervisory activities in a new subsidiary ASX Markets Supervision P/L (ASXMS). This step was taken essentially for 3 reasons:

1. to provide greater transparency and accountability of ASX's supervisory operations;
2. to strengthen market integrity; and
3. address the perception of conflict between ASX's regulatory and commercial functions.

3.9 ASXMS operates under its own Charter and has its own Board of 5 Directors – 2 of whom are independent of the ASX Board. The remaining three directors are also directors of the ASX Board. As the Chief Supervision Officer heading ASX Markets Supervision, I report to the ASXMS Board and not to the CEO of ASX.

3.10 Over all this time, ASX itself continues to be regulated by the Australian government regulator, Australian Securities and Investment Commission

(ASIC). To ensure that ASX has met its licence obligations, ASIC conducts a yearly review of ASX's supervisory and other activities. It is pleasing to note that in the last ASIC review, ASX received an "issues-free" assessment. This we see as a confirmation that our regulatory and governance structures are working well.

- 3.11 On 31 October of this year, the independent oversight subsidiary, ASXSR, ceased to operate. The functions previously performed by ASXSR are carried out either by an internal Group Licence Compliance unit within ASX or by the supervisory subsidiary, ASXMS. The cessation of ASXSR also is seen as an indication of the confidence that ASIC and Treasury (a Federal Government Department) have in our supervisory and governance arrangements.

4. Implications of the merger and new structure

- 4.1 Following the merger, SFE's core supervisory functions have also been placed within ASX Markets Supervision. While the initial objectives are to ensure that staff are cross-trained and some processes are streamlined, it is the longer term objective to minimise the burden of regulatory duplication for those who participate in both cash and derivative markets.

5. Concluding remarks

- 5.1 Needless to say, regulatory heads of exchanges will continue to be faced with challenges in this dynamic market we operate in. However, we believe that at ASX, the increased independence of our supervisory functions now provides us with a sound platform to meet these challenges.
- 5.2 Thank you for the opportunity to share our experience with you. I look forward to hearing your views during the panel discussion.