



ASX's valued trust position tested in FY21

Company/ASX Code	ASX Limited
AGM date	Wednesday 29 September 2021
Time and location	10am AEST - online
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Peter Gregory assisted by Sue Howes
Pre AGM Meeting?	Yes with Chair Damian Roche, Rem Committee Chair Heather Ridout and GM Investor Relations Josie Ashton

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for AGM

1. November 2020 outage and implications for roll out of the CHES replacement project built on Distributed Ledger Technology (DLT)
2. Board composition and renewal
3. Remuneration

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Financial results

ASX saw a small (1.4%) overall increase in revenue reflecting the overall diversity of the business. Three of the four business units delivered good growth reflecting the activity in markets and demand for services offered by ASX. The Derivatives and OTC Markets business was impacted by RBA Yield Curve Control thus significantly reducing overall growth.

ASX claims to be unusual amongst ASX200 companies as it has limited influence over its revenue, this being largely driven by market trade volume. However, the Annual Report refers to some non-market driven revenue such as listings which are influenced by the work ASX does to promote Australia as an attractive investment market, especially with foreign and technology companies. And the introduction of innovative services in Trading Services which are providing added value to customers.

Net profit after Tax (NPAT) was down 3.6% due to the low interest rate environment and increased expenses attributed to increased equity market activity, additional license costs and cost of growth initiatives.

Total shareholder Return (TSR) at end of financial year (FY) was negative 6.51% for the year after the drop in share price, largely as a consequence of the reputational damage caused by the outage to the trading system go-live in November 2020. The share price at around \$83 at the time of writing, is still slightly less than the end of FY20 price.

Business priority

ASX recognise that it must be at the cutting edge of technology, properly managing risk and governance while managing expenses and capital expenditure (CAPEX) effectively. It has a critical role as the licenced market operator working within a regulatory environment, managing billions of dollars of capital – above all else ASX has to get this right.

New business opportunities

In addition to its core business, ASX is also working to use its capabilities and expertise to provide new services in adjacent areas. Utilising its DLT expertise, ASX is building a “distributed ledger technology as a service” business that will create applications for other financial service companies.

ASX has formed a joint venture with e-conveyancing company InfoTrack called “sympli” to develop for the real estate industry an efficient and user-friendly e-settlements service. A phased delivery through 2022 is planned.

It is hoped that ASX will use their AGM as a forum to expand on these and other opportunities that will provide an increased source of revenue with less dependence on Australian equities trading.

November outage and learnings for CHES replacement

On 16 November 2020 an outage (of almost a day) occurred shortly after a major upgrade to ASX’s equity trading platform. The company was widely criticised and the share price was impacted falling by 6% on the day. Following the outage the ASIC and the RBA expected ASX would have an independent review carried out. IBM was selected to complete this review. [On 23 August 2021 a media release from ASIC](#) describes the outcome of the IBM review concluding that “the platform was not ready for go-live considering ASX’s near zero appetite for service disruption”.

[ASX also published a media release](#) - acknowledging the “outage fell short of ASX’s high standards” and describing action it has already taken. Our pre-AGM meeting discussed the outage and in particular the confidence that shareholders need that there won’t be a reoccurrence with the CHES replacement roll out. The Chair stated that it was impossible to completely avoid outages; That every Stock Exchange in the world experiences them. He expressed disappointment that it had happened and repeated that ASX was sorry. Over the last 5 years ASX has had a 90% reduction in outages and significant issues - ASX knows that it must continually improve and will learn from the experience and from the IBM report and will implement the needed changes. He described the extensive program of testing that the CHES replacement has been subject to and will continue to be up until the go live date. An additional level of testing incorporating the learnings from the IBM review is being added. At this time, the CHES replacement is moving into market-wide and migration testing by external users. This is a highly scrutinized project at all levels.

Board composition

We discussed the board composition and renewal and suggested that ASX should use a more informative board skills matrix to guide their decision-making and to better inform shareholders on the level of capability of directors. They agreed to consider ASA's preferred approach for next year.

We suggested that given the critical role that technology has for ASX that the Board consider increasing the hands-on technical understanding on the Board. This was dismissed by the Chair stating that other skills and capabilities were more important. In particular, considering ASX's critical role as licensed market operator and the regulatory environment ASX operates in.

Organisation changes

Damian Roche has taken over the Chairmanship from long-serving Rick Holliday-Smith, who retired during the year. While Mr Roche's appointment may not have been expected he appears, from our meeting with him, to be well across the current issues affecting ASX.

Peter Hiom, Deputy Chief Executive Officer and Group Executive Business Development resigned effective 1 July 2021.

Following Mr Hiom's departure, CEO Dominic Stevens has announced a revised leadership team comprising four business areas and the creation of Customer function as part of the Chief Operating Officer responsibility. Tim Hogben as Group executive Securities and Payments has direct responsibility for the critical CHESS replacement project. These roles report directly to the CEO and will provide clearer accountability, operational resilience and customer alignment.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	480.9	498.6	492.0	445.1	434.1
UPAT (\$m)	480.9	513.8	492.0	465.3	434.1
Share price (\$)	77.71	85.38	82.370	64.390	53.600
Dividend (cents)	223.6	238.9	357.8*	216.3	201.8
Simple TSR (%)	(6.51)	6.55	33.50	24.20	21.70
EPS (cents)	248.4	257.6	254.1	230.0	224.5
CEO total remuneration, actual (AUD\$m)	4.31	3.63	2.87	2.80	2.49

* includes special dividend [129.1 cents declared end FY19; paid FY20]

For FY21, the CEO's total actual remuneration was 46.83 times the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

Note - For November 2020, the Full-time adult average weekly total earnings (annualised) was \$92,034.80 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Consideration of the Financial Statement and Auditors Report for the National Guarantee Fund
ASA Vote	No vote required

Summary of ASA Position

The Corporations Act requires a copy of the audited financial statements of the National Guarantee Fund to be laid before the AGM of ASX.

Item 3a	Re-election of Ms Yasmin Allen as a Director
ASA Vote	For

Summary of ASA Position

Ms Allen joined the Board in 2015 and is on the Audit and Risk committee. While Ms Allen has a fairly large workload given the number of other Board positions held, we view the exposure that some of these give her to up to date technology and entrepreneurship to be of benefit to ASX, given its reliance on technology and the associated governance and risks.

Accordingly, ASA will be voting all undirected proxies for Ms Allen's re-election.

Item 3b	Re-election of Mr Peter Marriott as a Director
ASA Vote	Against

Summary of ASA Position

The Annual Report refers to FY21 Board's governance priorities and areas of focus as including "Board renewal and succession planning".

Mr Marriott joined the Board in 2009, making FY21 his 12th year as an ASX director. His re-election would mean 15 years on the ASX Board. ASA considers 3 terms (9 years) to be the maximum for any director to still be considered independent.

Mr Marriott was also Chair of the Audit and Risk Committee, a position to which internal audit also reports, when the outage occurred in November 2020, exposing several risk issues within the organisation.

In our meeting with the company, we questioned the need for Mr Marriott to be serving another term, which would take him to 15 years. The response was that the Board considered this to be necessary for continuity, following the retirements of Mr Holliday-Smith and Mr Warne, that he adds value and that he is reducing his role (by moving out of the Audit and Risk Chair) and moving toward retirement in 3 years' time.

ASA's view is that in line with the Board's priorities and areas of focus, a continual process of board renewal is essential for ASX. And that despite these comments by the company, its succession planning process would enable a talented new director to compliment the three other longer term ASX directors, bring a fresh perspective to the Board, and in particular contribute to the Board's oversight of ASX's technology contemporisation program.

For these reasons ASA will vote all undirected proxies against Mr Marriott's re-election.

Item 3c	Re-election of Mrs Heather Ridout as a Director
ASA Vote	For

Summary of ASA Position

Mrs Ridout is another long-serving Board member. She is standing for a fourth term, which will take her from 9 years to 12 years. She has stated this will be her final term.

Mrs Ridout is Chair of the Remuneration Committee and is in the process of overhauling the remuneration planning for ASX. While it could be argued that this should have been accomplished by now, the fact remains that the focus on the STI has resulted in some improvement. Mrs Ridout attended the meeting with the ASA and made it clear that the LTI is now being worked on. With this anticipated improvement from our standpoint, as well as the possibility of better alignment and further improvement with the STI will provide a coherent and effective overall plan.

As a director of the Australian Government's Cyber Security Growth Network, Mrs Ridout is expected to contribute in this critical area.

For these reasons ASA will be voting all undirected proxies for Mrs Ridout's re-election.

Item 4	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

The FY21 Remuneration Report deviates from ASA guidelines for the CEO in a number of respects:

- While the pay at risk is 60% for the CEO, the maximum LTI is 50% of the fixed pay and only 20% of total package. Therefore, the LTI cannot be seen to meet our guidelines for the variable incentive to be "primarily through a long-term plan"
- The LTI has two performance measures - underlying earnings per share (EPS) and relative TSR targets. The EPS minimum hurdle of 5.1% compound growth has not been met for at least 5 years suggesting that either the target is not appropriate or that the actual performance has fallen below the board's expectations. Either of these scenarios is not consistent with good remuneration practices.
- The CEO (and deputy CEO before his resignation) receive both the LTI and STI. The other key management personnel (KMP) only have STI and so don't have a sufficient level of financial alignment with long term shareholders.

- The STI is based on performance measures of
 - FY21 financial results;
 - Vision, strategy and execution
 - Enduring trust, integrity and resilience
 - Innovative solutions and technology;
 - customer-focused;
 - Diverse ecosystem;
 - Collaborative culture
 - Group scorecard

Many of these STI measures are not based on quantifiable performance metrics, and there is no statement of the weighting applied to each of the performance measures. There is no financial gateway in place. The board uses input from a number of sources in determining the reward pool that appropriately reflects the underlying performance of the Group. However, in the absence of specific details, it appears that this is a largely subjective outcome.

When the group pool is determined the performance of individuals is assessed and their entitlement to STI is determined. In FY21 each of the continuing KMP received the same percentage, which raises the question as to whether there is true individual assessment.

- While 60% of the awarded STI is equity that is deferred over 2 and 4 years, ASA regards this as retention rather than an incentive for performance. It is not in our view an LTI proxy.

For these reasons ASA will be voting all undirected proxies against the Remuneration report.

Item 5	Grant of performance rights to the CEO/Managing Director, Mr Dominic Stevens
ASA Vote	Against

Summary of ASA Position

The number of performance rights to be granted to Mr Stevens is calculated by dividing \$1 million by the Volume Weighted Average Price (VWAP) of ASX shares over the 10 business days preceding 29 September 2021 (the date of the proposed grant). The number of shares will be purchased on market at the time of vesting. There are two performance hurdles of TSR and EPS growth – each has a 50% weighting with testing occurring after 4 years.

Based on comments on the LTI under the remuneration item above, ASA will be voting all undirected proxies against the grant of performance rights.

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Appendix 1

Remuneration framework detail

Group CEO Remuneration Framework for FY21	Target \$'m	% of Total	Max. Opportunity \$'m	% of Total
Fixed Remuneration	2.0	40%	2.0	33%
STI - Cash	0.8	16%	1.2	20%
STI - Equity	1.2	24%	1.8	30%
LTI**	1.0	20%	1.0	17%
Total	5.0	100%	6.0	100%

** Relative EPS and TSR over 4 years vs mean of ASX100 (excl property trusts)

ASX has a minimum shareholding policy in place that requires the CEO to hold the value of shares equivalent to his fixed pay. Mr Stevens holds approximately 3 times this number of shares.

There was no change in the at target remuneration for the CEO during this year. Board fees have not changed.