



ASIC

Australian Securities & Investments Commission

REPORT 241

Overview of decisions on relief applications (October 2010 to January 2011)

May 2011

About this report

This is a report for prospective applicants for relief, including participants in capital markets, financial services providers, and credit providers and intermediaries.

This report outlines ASIC's decisions on relief applications during the period 1 October 2010 to 31 January 2011. It summarises situations where we have exercised, or refused to exercise, our exemption and modification powers from the financial reporting, managed investment, takeovers, fundraising or financial services provisions of the *Corporations Act 2001*, *National Consumer Credit Protection Act 2009* or *National Consumer Credit Protection (Transitional and Consequential Provisions) Act 2009*.

Reports on ASIC's decisions on relief applications for prior periods can be found at www.asic.gov.au/reports.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal, financial or other professional advice. We encourage you to seek your own professional advice, including finding out how the *Corporations Act 2001*, *National Consumer Credit Protection Act 2009* or *National Consumer Credit Protection (Transitional and Consequential Provisions) Act 2009*, and other applicable laws apply to you. It is your responsibility to determine your obligations and to obtain any necessary professional advice.

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Overview

- 1 ASIC has powers under the *Corporations Act 2001* (Corporations Act) to exempt a person or class of persons from particular provisions and to modify the application of particular provisions to a person or class of persons. This report deals with the use of our exemption and modification powers under the provisions of the following chapters of the Corporations Act: Chs 2D (officers and employees), 2J (transaction offering share capital), 2L (debentures), 2M (financial reporting and audit), 5C (managed investment schemes), 6 (takeovers), 6A (compulsory acquisitions and buy-outs), 6C (information about ownership of listed companies and managed investment schemes), 6D (fundraising) and 7 (financial services).
- 2 ASIC also has powers to give relief under the provisions of Chs 2 (licensing) and 3 (responsible lending) of the *National Consumer Credit Protection Act 2009* (National Credit Act), and to give relief from the registration provisions under Sch 2 of the *National Consumer Credit Protection (Transitional and Consequential Provisions) Act 2009* (Transitional Act).
- 3 The purpose of this report is to improve the level of transparency and the quality of information available about decisions we make when we are asked to exercise our discretionary powers to grant relief from provisions of the Corporations Act, the National Credit Act and the Transitional Act.
- 4 This report covers the period beginning 1 October 2010 and ending 31 January 2011. During this period we received 1124 applications. We granted relief in 699 applications and refused relief in 89 applications; 117 applications were withdrawn. The remaining 219 applications were considered outside of this period.
- 5 This report does not provide details of every single decision made in that period. It is intended to provide examples of decisions that demonstrate how we have applied our policy in practice. We use our discretion to vary or set aside certain requirements of the law where the burden of complying with the law significantly detracts from its overall benefit, or where we can facilitate business without harming other stakeholders.
- 6 In this report, we have outlined matters in which we refused to exercise our discretionary powers as well as matters in which we granted relief. Prospective applicants for relief may gain a better insight into the factors we take into account in deciding whether to exercise our discretion to grant relief. We have also included some examples of limited situations in which we have been prepared to take a no-action position on instances of non-compliance.
- 7 The appendix to this report details the relief instruments we have executed for the relevant matters. Class orders are available from our website via www.asic.gov.au/co. Instruments are published in the *ASIC Gazette*, which is available via www.asic.gov.au/gazettes, or under 'Credit relief' on our website (for credit instruments). Information and media releases are available via www.asic.gov.au/mr.

A Licensing relief

Key points

This section outlines some of our decisions on whether to grant relief under s911A(2) and 926A(2) of the Corporations Act from the requirement to hold an Australian financial services (AFS) licence. It also describes the relevant class order and guidance we have issued.

Relief granted

Licensing relief for a wind farm operator

- 8 We granted conditional relief from the requirement to hold an AFS licence to a planned wind farm operator to enter into a single long-term derivatives contract to hedge against changes in the wholesale price of electricity. Relief was sought because the applicant was unable to rely on the exemption for hedging under reg 7.6.01(1)(m) of the Corporations Regulations 2001 (Corporations Regulations).
- 9 Conditional relief was granted in this particular circumstance because it would have been disproportionately burdensome for the applicant to comply with the financial services licensing and disclosure requirements under the Corporations Act for the purpose of a single contract. Some factors we considered in making this decision included:
- the particular terms of the proposed derivatives contract, including that it was a single long-term contract, was not terminable at will and could only be assigned with the consent of the applicant;
 - the counterparty would be a wholesale client and also an AFS licensee, which reduces the potential for consumer detriment; and
 - but for the statutory note under reg 7.6.01(1)(m), the wind farm operator would fall within the scope of the licensing exemption in reg 7.6.01(1)(m).
- 10 This is the first time ASIC has granted relief from the requirements of s911A(1) where the exemptions under reg 7.6.01(1)(m) did not apply.

No-action position for electricity generator

- 11 We adopted a no-action position in relation to the breach of two conditions of an AFS licence, which occurred due to refinancing arrangements that resulted in the licensee holding an insufficient level of adjusted surplus liquid funds (ASLF). The applicant had breached its ASLF requirement due

to a large bullet-debt facility rolling from a non-current liability to a current liability in the year before it matured. This increase in current liabilities resulted in the amount of ASLF falling below the level specified in the applicant's AFS licence. During this period, the applicant had also breached its AFS licence by entering into over-the-counter derivatives transactions that could have given rise to further liabilities. The no-action letter was granted contingent on refinancing of the applicant's debt facility and subject to conditions designed to minimise the risks to over-the-counter derivative counterparties and the market.

Relief refused

Refused licensing relief to a life insurance ratings provider

- 12 We refused to grant relief from the requirement to hold an AFS licence to the provider of a life insurance policy ratings service. The applicant provides a service to financial advisers, which is a qualitative research tool that provides a rating of the terms of various life insurance policies. We took the view that the provision of ratings constitutes the provision of general financial product advice and the ratings are intended to influence (or could reasonably be regarded as intending to influence) a person's decision in relation to a life insurance product. Holding an AFS licence for the provision of ratings would require the applicant to comply with certain key obligations in the Corporations Act, including ensuring that adequate arrangements are in place for internal and external dispute resolution and for the management of conflicts of interest.

Publications

- 13 We issued the following class order and regulatory guides in relation to AFS licensing relief during the period of this report.

Class order

[CO 10/1257] Variation of Class Order [CO 08/1]

- 14 Class Order [CO 08/1] *Group purchasing bodies* gives conditional relief from the AFS licensing regime and Ch 5C of the Corporations Act for certain group purchasing bodies that arrange or hold risk management products for the benefit of third parties on a non-commercial basis. [CO 10/1257] extends the transitional period for compliance with the breach reporting condition in [CO 08/1] until 30 June 2011. The transitional period for compliance with the breach reporting conditions was otherwise due to expire on 31 December 2010.

Regulatory guides

RG 126 *Compensation and insurance arrangements for AFS licensees*

- 15 We have released an updated version of RG 126, which sets out our policy on the mandatory compensation requirements for AFS licensees, including minimum requirements for adequate professional indemnity (PI) insurance. AFS licensees must now ensure that their PI insurance policies meet the minimum standards set out in RG 126.
- 16 The updated RG 126 includes new information for trustee companies providing traditional trustee company services to retail clients. ASIC has also removed outdated references to the implementation period for AFS licensees for compensation arrangements that expired on 1 January 2010.

RG 98 *Licensing: Administrative action against financial services providers*

- 17 We have updated RG 98 by including additional sections on our new powers to supervise market participants. In addition to general remedies, we may now ask the Markets Disciplinary Panel to issue an infringement notice to AFS licensees who are market participants.

B Disclosure relief

Key points

This section outlines some of the applications we have considered that relate to the requirements under Chs 6D and 7 of the Corporations Act to provide prospectuses and other disclosure documents, Product Disclosure Statements (PDSs) and Financial Services Guides (FSGs). It also discusses the relevant guidance and consultation papers we have issued.

Prospectus relief

Disclosure relief to facilitate a foreign scrip takeover for a company issuing bearer shares

- 18 We granted relief from Pts 6D.2 and 6D.3 of the Corporations Act for a foreign company (bidder) seeking to offer its securities as consideration in a scrip bid. While similar relief is available in Class Order [CO 09/68] *Prospectus and PDS relief for foreign scrip takeovers*, the target company was an issuer of bearer shares and did not have a share register. Therefore, the bidder was unable to rely on [CO 09/68] because the definition of ‘Australian residents’ (to whom scrip offers could be made) could not be met in that a report of beneficial ownership was not publicly available. Relief was granted subject to certain conditions, including that the bidder must be satisfied after conducting reasonable inquiries that Australian residents do not hold more than 10% of the total number of securities in the bid class, as determined at a fixed time before offers are first made.
- 19 We also granted on-sale relief by modifying s707 of the Corporations Act largely in the form provided in Class Order [CO 04/671] *Disclosure for on-sale of securities and other financial products* so that a person who becomes a shareholder of the bidder, as a result of accepting the foreign scrip bid, is not required to provide disclosure in the event of an on-sale of the shares received as consideration within 12 months of their issue.

Disclosure relief for the offer of securities to casual employees and contractors under an employee share scheme

- 20 We granted disclosure relief from Pts 6D.2, 6D.3 (except s736) and 7.9 in a form similar to Class Order [CO 03/184] *Employee share schemes*. The applicant proposed to make offers under an employee share scheme to:
- contractors that have a defined relationship with the applicant; and
 - participants in foreign jurisdictions.

Therefore, the proposed offers were not ‘eligible offers’ under [CO 03/184].

- 21 Conditional relief was granted to extend the definition of ‘eligible employee’ to include specified contractors and to ensure that the employee share scheme does not cease to be an ‘eligible employee share scheme’, notwithstanding offers under the scheme being extended to foreign participants. Conditional relief was granted in the specific circumstances of the application because:
- adequate disclosure was provided to all participants to whom the offer was made;
 - the aim of the relevant offer was not fundraising; and
 - the offers sufficiently supported the long-term mutual interdependence between the applicant and the participants.
- 22 We also granted relief from the operation of s707(3) and (4) for CHESSE Depository Interests (CDIs) that would be issued under the employee share scheme. Relief was required because the applicant could not rely on [CO 04/671] given that the CDIs will be issued by CHESSE Depository Nominees Pty Ltd, rather than the applicant.
- 23 We also granted similar relief for an offer of securities to casual employees under an employee share scheme.

Other disclosure relief

Disclosure relief to a credit rating agency to provide a FSG on their website

- 24 We granted relief to modify s940C of the Corporations Act to permit a credit rating agency to give a FSG to a retail client by making the FSG readily accessible on the agency’s website. Relief was granted because the agency’s ratings are often given to clients by an intermediary (such as the issuer of a corporate bond) as a secondary service. Therefore, the credit rating agency will have difficulty giving an FSG to these clients because it does not typically have a direct relationship with them. Relief was granted on the condition that the agency:
- has in place arrangements to send to the client, if requested, a hard copy or electronic copy of the FSG free of charge;
 - give instructions on how these arrangements can be accessed on its website; and
 - includes in the credit rating a statement outlining that the FSG can be accessed on the agency’s website and that an FSG can be requested free of charge.

Publications

- 25 We issued the following regulatory guides and consultation papers in relation to disclosure relief during the period of this report.

Regulatory guides

RG 221 *Facilitating online financial services disclosures*

- 26 RG 221 provides greater certainty for financial services providers who supply financial services disclosures (such as PDSs) to clients using online means, including email and the internet. RG 221 sets out:
- our interpretation of the online disclosure provisions under the Corporations Act; and
 - the relief we have given in Class Order [CO 10/1219] *Facilitating online delivery of PDSs, FSGs and SOAs* to enable providers to deliver:
 - (i) PDSs, FSGs and Statements of Advice (SOAs) by sending a written notice (paper or electronic) with a reference to a website address where the disclosure can be found; and
 - (ii) PDSs and FSGs by sending an email with a hyperlink to the disclosure,

if the client or the client's agent agrees to receive disclosure in this way.
- 27 RG 221 also includes good practice guidance for online delivery of financial services disclosures to ensure that clients receive clear, concise and effective information, as well as minimising their exposure to security risks where disclosures are delivered online, noting that some industry standards (e.g. the Electronic Funds Transfer Code of Conduct) may prohibit or discourage delivery by methods such as hyperlinks.
- #### **RG 219 *Non-standard margin lending facilities: Disclosure to investors***
- 28 RG 219 outlines the information that we expect to be disclosed in a PDS for non-standard margin lending facilities, including:
- how the product differs from a standard margin lending facility;
 - an explanation of the transfer of securities from the client to the provider of the facility and the risks associated with that transfer;
 - a clear warning to the client of their responsibility to monitor the margin under the facility; and
 - an explanation of the tax consequences of the transaction, together with a stark warning that the client should seek tax advice before entering into the transaction.

Consultation papers

CP 141 *Mortgage schemes: Strengthening the disclosure benchmarks*

29 CP 141 outlines proposals to improve disclosure to retail investors who are considering investing in unlisted mortgage schemes. The proposals aim to improve disclosure by:

- simplifying the benchmarks to make it easier to determine whether the benchmark is met or not;
- separating additional disclosure requirements from the benchmark;
- clarifying how the benchmarks in Regulatory Guide 45 *Mortgage schemes: Improving disclosure for retail investors* (RG 45) apply to feeder funds; and
- providing additional guidance on the ‘if not, why not’ approach.

CP 144 *Giving a PDS in telephone sales of general insurance products*

30 We have released CP 144 on the requirement to provide retail clients with PDSs where they are invited to apply for a general insurance product (in the form of a quote for a particular insurance policy) during a telephone call. CP 144 discusses whether it would be appropriate to give class order relief to:

- allow some quotes for general insurance products to be provided in the course of telephone calls without giving a PDS when, or before, a quote is provided; and
- require a regulated person, who provides a quote without giving a PDS, to instead:
 - give the client the PDS as soon as practicable, and before the client applies for the policy that is the subject of the quote; and
 - provide the client with certain information before providing the quote.

31 CP 144 also invites feedback from consumers, product issuers and financial services professionals on whether:

- the current PDS requirements result in significant commercial difficulties for general insurers marketing their products to retail clients in an efficient and cost-effective way; and
- consumer detriment would likely result from the proposed change.

C Managed investment relief

Key points

This section sets out some of the applications for relief from the provisions of Ch 5C of the Corporations Act we have considered under s601QA. We did not issue any publications in relation to managed investment relief during this period.

Registration

Registration relief for timeshare schemes

- 32 We granted conditional relief to a responsible entity of a title-based timesharing arrangement (referred to as a 'fractional ownership' scheme) from the requirement to register a number of underlying timeshare schemes, where the schemes form part of the fractional ownership scheme. Each underlying timeshare scheme relates to a separate property arrangement under which the member of the timeshare scheme would hold title to a specific real property as tenants-in-common. As a fractional owner of a particular property, a member would be required to enter into a deed with other fractional owners in the underlying scheme and the responsible entity. We granted relief in the particular circumstances because the underlying timeshare schemes within the fractional ownership scheme will still be regulated under Ch 5C of the Corporations Act as part of the operation of a registered scheme.

Other relief for registered schemes

Relief to enable disenfranchised members of a scheme to vote at a meeting

- 33 A responsible entity sought relief under s601QA(1)(b) to modify s601GC and 601LC to entitle members of a scheme to vote on a resolution where they might otherwise be disenfranchised by the operation of s253E of the Corporations Act. Relief was sought to enable the members of two wholesale funds to effectively vote at a meeting to restructure a mortgage fund, where the responsible entity is responsible for both the mortgage fund and the wholesale funds and where the wholesale funds invest only in the mortgage fund. Section 253E prohibits a responsible entity from voting its interest at a scheme meeting if it has an interest in the resolution other than as a member. In this case, a conflict of interest exists between the

responsible entity's duties as the responsible entity of the wholesale funds and its own interest as a member of the mortgage fund. The members of the wholesale funds who would be disenfranchised from voting hold a collective 55% interest in the mortgage fund.

34 We were prepared to grant relief with conditions that would require the proposed voting arrangements to effectively disempower the responsible entity from voting or influencing the voting of wholesale fund members. Our conditional relief would thereby address any potential, actual or perceived conflict of interest that may arise as a result of the responsible entity being the responsible entity of both the wholesale funds and mortgage fund. The application was ultimately withdrawn as the restructure did not proceed.

Equal treatment relief to enable corrective withdrawal payments to be made for a withdrawal facility

35 In September 2010, we granted relief from the obligation to treat members of the same class equally. Our relief enabled a responsible entity to establish a withdrawal facility under which the members of the funds who held up to the maximum dollar value of interests would be able to withdraw their investment in one lot: see paragraphs 46–48 of *Overview of decisions on relief applications (June to September 2010)* (REP 226).

36 The responsible entity sought an extension of this relief in order to make corrective withdrawal payments to members who indirectly held interests in one of the funds through a platform (most of whom were small balance holders). This is because the platform had erroneously completed the withdrawal forms on behalf of these members. The responsible entity sought relief to treat these members differently, so that the correct withdrawal forms could be re-processed, even though the closing date for withdrawals had passed, and to allow the corrective payments to be made to these members.

37 We granted relief because:

- the errors were beyond the control of the responsible entity;
- relief would enable indirect members to access their full benefit under the withdrawal facility; and
- the responsible entity had sufficient cash reserves to make the corrective payments.

38 We also granted a variation to this relief to extend the timeframe for making the corrective withdrawal payments after it became apparent that more errors had been made.

Relief to hold application monies for a period of up to 80 days before issuing units to investors

- 39 We granted relief from s1017E(4) to allow the responsible entity of a registered scheme a period of up to 80 days to hold application monies before issuing units to investors. The scheme primarily invests in shares in an overseas registered company, which has underlying investments in international long/short absolute return funds. To calculate the issue price of units in the scheme, the responsible entity relies on information on the value of the shares in the overseas registered company, which in turn relies on information on the value of the investments in the various underlying funds. As a result, the calculation of the issue price takes up to 45 days after the applicable subscription day.
- 40 We granted conditional relief in the particular circumstances because:
- there is a legitimate commercial basis for the responsible entity to defer issuing interests until the current pricing is available for the underlying investments;
 - we recognise that there are some administrative lags so that a cut-off date might need to be set for a batch of applications some days before the end of the month;
 - we considered it reasonable to allow for an additional period of time because of the delay in obtaining underlying prices beyond the normal cycle;
 - the application monies will remain in a separate trust account with an Australian authorised deposit taking institution (ADI); and
 - the timing involved would be disclosed in the PDS.

Relief from related party provisions for a new listed stapled group

- 41 We granted relief from the related party provisions of Pt 5C.7 of the Corporations Act to allow the responsible entities of two registered schemes within a new listed stapled group (new group) to give ongoing financial benefits out of scheme property to related entities within another listed stapled group (related group) and any of its controlled entities, without the need to obtain member approval. The new group and the related group entered into a number of related party agreements in connection with a restructure under which 50% of the related group's interest in shopping centre assets in Australia and New Zealand were demerged through the public float of the new group. The agreements entered into mainly related to the management and administration of the co-owned shopping centre assets.
- 42 When the related party agreements were entered into, the new group had not yet been demerged and the members of both groups were identical. We granted conditional relief in these particular circumstances because:
- at the time the related party agreements were entered into, the members of the new group were unable to approve the giving of financial benefits

out of scheme property to the related group due to the operation of s253E of the Corporations Act;

- entering into the related party agreements at a later date following the distribution of stapled securities in the new group would be impractical and commercially difficult; and
- members of the related group and the new group received disclosure of the related party agreements by way of an explanatory memorandum and a PDS respectively.

Relief to facilitate a withdrawal offer to be made to members of a frozen scheme

- 43 Relief was granted to a responsible entity to allow a withdrawal offer to be made to members of a non-liquid frozen scheme (Scheme A) without the responsible entity complying with the content requirements under s601KB(3)(a) and 601KB(3)(c) of the Corporations Act. Scheme A was wholly invested in another non-liquid frozen scheme (Scheme B) operated by the same responsible entity, who sought to make concurrent withdrawal offers to members of Scheme A and Scheme B. Under the withdrawal offer for Scheme A, the amount of assets that would be disposed of, and the amount of cash that would be available, to satisfy withdrawal requests were uncertain and would depend on the outcome of Scheme A's participation in the concurrent withdrawal offer made by Scheme B. The withdrawal offer for Scheme A would therefore not comply with the requirements of s601KB(3)(a) and 601KB(3)(c). Without relief, the withdrawal offer for Scheme A could only occur after the withdrawal offer for Scheme B had closed and there would be a delay in members of Scheme A receiving their withdrawal proceeds.
- 44 In deciding to grant relief, we considered the particular circumstances of Scheme A, which had been frozen for a significant period and the impact of the removal of the withdrawal offer content requirements on members. We granted relief on the basis that the withdrawal offer for Scheme A:
- specifies the kinds of assets that would be used, and the minimum (and maximum) amount of money that was expected to be available, to satisfy withdrawal requests;
 - specifies that the amount of money available to satisfy withdrawal requests will depend upon participation in the concurrent withdrawal offer; and
 - outlines the factors that would influence how much money is available to satisfy withdrawal requests.

Publications

- 45 We did not issue any publications in relation to managed investment relief during the period of this report.

D Mergers and acquisitions relief

Key points

This section outlines some of the circumstances in which we have granted or refused relief from the provisions of Chs 2J, 6, 6A and 6C under s259C, 655A, 669 and 673 of the Corporations Act, respectively. We did not issue any publications in relation to mergers and acquisitions relief during the period of this report.

Takeovers

Relief to improve the consideration offered under an off-market takeover bid

46 We granted relief to modify s650B(1) and (2) to enable a bidder to improve the form of consideration offered, being cash and shares, by also offering options. Without the relief, the improvement would have been invalid because s650B does not expressly permit the bidder to improve the consideration offered under an off-market bid by offering an additional form of securities to that already offered. The bidder's intention was for the options to be an improvement to the consideration and not an additional alternative form of consideration where target shareholders who had already accepted the offer are able to make a fresh election (as provided for in s650B(1)(h) and s650B(2)). Relief was granted in this case because we were satisfied that:

- the terms of the options were not onerous; and
- the target shareholders who had already accepted into the bid were not prejudiced by any of the terms of the options.

47 We also granted relief to modify s625(3)(c) to enable the bidder to apply for quotation of the options in a new time period. Without the relief, the bid would have been subject to a condition that could not have been fulfilled. This is because s625(3)(c) imposes a condition on the bid that an application for quotation of securities offered as consideration must be made within seven days after the start of the bid period and the relevant notice of variation was lodged after this time.

Refusal of joint bid relief without the 'match and accept' condition

48 We will generally grant relief to facilitate joint bids in accordance with our policy, subject to a 'match and accept' condition, which requires joint bidders to accept or match a higher rival bid when a rival bid offers more

than 105% of the value of the joint bidders' bid consideration and once that bid has become unconditional (except for prescribed occurrence conditions).

- 49 We refused to grant joint bid relief without the 'match and accept' condition in this instance because the joint bidders together held 77.5% of the target's shares—one held 52% and the other held 25.5%. We consider the 'match and accept' condition is necessary to address the risk that the increased stake held by the joint bidders under the joint bid arrangements may deter a rival bidder from launching a higher bid and any ensuing auction for control. We also consider that the mechanisms under Regulatory Guide 159 *Takeovers, compulsory acquisitions and substantial holding notices* (RG 159) and s640(a) of the Corporations Act sufficiently address the interest of both the joint bidders and the non-associated shareholders in ensuring that the price offered by the joint bidders and the rival bidder is fair and reasonable.

Refusal of relief to require a foreign bidder to make a downstream bid for an Australian listed company

- 50 We refused relief to modify Ch 6 to require a foreign bidder to make a follow-on bid for an Australian 'downstream' company (downstream company) controlled by the foreign 'upstream' target (upstream company). Relief was sought on the basis that the takeover bid for the upstream company was an 'artifice' or 'device' for acquisition of control in the downstream company. We decided not to grant relief on the basis that ASIC would not exercise its discretionary powers to effect law reform—that is, relief will not be given to reverse the usual and intended effect of the Corporations Act, as noted in Regulatory Guide 51 *Applications for relief* (RG 51) at RG 51.62. The acquisition of a relevant interest in the downstream company fell within the scope of the ordinary operation of item 14 of s611 of the Corporations Act because the upstream company was a body corporate included in the official list as a foreign body conducting a financial market that is a body approved in writing by ASIC: see paragraph (b), item 14 of s611. ASIC also considered that the Takeovers Panel is the appropriate forum to consider the control issues raised here.

Other mergers and acquisitions relief

Relief to permit indirect self-acquisition

- 51 We granted a variation of existing relief under s259C to change the condition in the existing relief that imposes a 5% limit on the aggregated voting shares that a company can self-acquire: see Consultation Paper 1 *Indirect self acquisition by investment funds* (CP 1) at paragraph 16. Our relief permits a company and its controlled entities to have relevant interests over the company's own shares of more than 5% but less than 10%, where those interests relate to shares held on behalf of participants in employee

share schemes. The variation was granted on an interim 12-month basis and is subject to conditions requiring regular reporting of holdings and prompt disposal of any holdings in excess. We considered these conditions would address the regulatory risks of self-acquisition as identified in CP 1.

Refusal of relief for an extension of time to cease control of an entity

- 52 We refused to grant relief to extend the 12-month period in s259D(1) of the Corporations Act for a further 12 months so that the applicant has a longer time to cease its control of a company. We refused the relief because we did not consider it appropriate for shareholders of the company to be affected by the applicant's control for a longer period of time.

Publications

- 53 We did not issue any publications in relation to mergers and acquisitions relief during the period of this report.

E Short selling relief

Key points

This section outlines the no-action position we took and the class order we issued in relation to the short selling provisions in s1020B and notional s1020BC and 1020BD of the Corporations Act.

No-action position

Facilitation of a dividend reinvestment plan

- 54 We issued individual no-action letters to stockbrokers and an investment bank (sellers) to allow them to make naked short sales of securities or managed investment products (products) required to facilitate a dividend reinvestment plan. This relief relates to a naked short sale that may arise in:
- an agreement to transfer as yet unattained products to the share registrar of the relevant client or custodian for transfer, in turn, to participants in the dividend reinvestment plan (e.g. under a neutralisation deed); and
 - an underwriter of a dividend reinvestment plan entering into a sub-underwriting agreement to manage, avoid or limit the financial consequences of underwriting the plan.
- 55 The no-action letters were given subject to a number of conditions, including:
- the short sale is made in products that are constituents of the S&P/ASX 200;
 - the seller transfers all products required to be transferred under the facilitation agreement to the share registrar or custodian, unless the agreement is terminated;
 - at the time of the short sale, the seller believes on reasonable grounds that it will be able to acquire all the products that it is obliged to acquire under the facilitation agreement before the transfer date; and
 - the facilitation agreement provides that the seller can facilitate the dividend reinvestment plan other than by acquiring the products, where the seller would be unable to deliver the products at the end of the pricing period.
- 56 We issued the no-action letters on the basis that facilitation of a dividend reinvestment plan is similar to facilitation of a client's securities transaction. However, because acquiring or contracting to acquire or borrow the relevant products by the end of the sale day (required under the client facilitation

no-action letters) would be prohibitively costly for facilitation of a dividend reinvestment plan, the no-action letter contains modified conditions designed to reduce the risk of settlement failure. No-action letters for underwriting were conditional on, among other things, the short sale being a bona fide sub-underwriting transaction. As the 'sale' of the products by the underwriter to the sub-underwriter under the sub-underwriting agreement is conditional upon the issue of the products to the underwriter under the dividend reinvestment plan, there is negligible risk of settlement failure.

Publications

- 57 We issued the following class order in relation to short selling relief during the period of this report.

Class order

[CO 10/1037] *Variation of Class Order [CO 10/29]*

- 58 [CO 10/1037] standardises reporting obligations for holders of short positions by clarifying that short sellers will not be able to net off long and short positions where those positions are held in different capacities.

F Conduct relief

Key points

This section outlines some of our decisions to grant relief from certain conduct obligations imposed by Chs 2D, 2M, 5C and 7 of the Corporations Act. We also issued a class order in relation to Ch 7 during the period of this report.

Financial reporting

Relief from the notice requirements for the nomination of an auditor

- 59 We granted relief from the requirement to comply with the relevant notice provisions for the nomination of an auditor under s328B(1) of the Corporations Act to allow the appointment of an auditor under s327B(1) to a public company limited by guarantee at its next annual general meeting (AGM). Relief was necessary because notice was not given by the nominating member to the company at least 21 days before the AGM. Without relief, the AGM would need to be adjourned and reconvened at a later date to comply with the timing requirements of s328B(1). We granted relief because we were satisfied that compliance with the timing requirement of s328B(1) would impose unreasonable burdens in the circumstances because a member nomination of the auditor had already been received by the company and the member was also the sole provider of funding to the company. The notice of nomination had also been sent to the relevant parties before the statutory deadline in s328B(4).

Financial services providers

Extending relief, to a licensee that changes the status of its representatives, from the requirement to provide an SOA when providing further advice

- 60 We granted relief to an AFS licensee from the requirement to provide a Statement of Advice (SOA) when providing further advice by modifying s946B of the Corporations Act, as inserted by reg 7.7.10AE of the Corporations Regulations. The licensee would not be able to rely on the exemption provided by s946B because it was to change its authorised representatives to employee representatives. We granted relief on the condition that further advice was provided by an employee representative,

who had previously given the client an SOA in their capacity as an authorised representative of the licensee. In granting the relief, we considered:

- the cost of compliance with the requirement to provide an SOA;
- the intent of the exemption provided by s946B;
- whether the clients would still have the protection intended by Parliament; and
- the likelihood and extent of potential consumer detriment.

Extending relief, to a licensee that changes the status of its representatives, from the requirement to provide referenced documents when incorporating by reference

- 61 In the matter referred to in paragraph 60, we also granted relief to the licensee to modify reg 7.7.09B of the Corporations Regulations, exempting the licensee from the requirement to provide a document where information from the document has been incorporated by reference into an SOA. We granted relief on the condition that the employee representative had previously given the client the referenced document in their capacity as an authorised representative of the licensee.

Publications

- 62 We issued the following class order in relation to conduct relief during the period of this report.

Class order

[CO 10/1034] *Margin lending relief for ASX-traded instalment warrants*

- 63 [CO/1034] declares that certain instalment warrants traded on the Australian Securities Exchange (ASX) are not margin lending facilities. This means that the issuer does not have to comply with the new margin lending responsible lending provisions in Ch 7 of the Corporations Act. However, the instalment warrants will still remain regulated as financial products.

G Credit relief

Key points

This section outlines some of our decisions in relation to applications for relief under the National Credit Act or the Transitional Act. It also describes the relevant regulatory guides we have issued.

Licensing relief

Refusal to grant licensing relief to a LMI provider

- 64 We refused to grant relief from the requirement to hold a credit licence to a lenders' mortgage insurer, in relation to its recovery activities arising from its lenders' mortgage insurance (LMI) business. The insurer's sole business was to provide LMI to lenders. Under the doctrine of subrogation, the insurer was entitled to pursue any claims against a borrower to recover any shortfall in the name of the lender, after the lender had exercised its power of sale as a result of a default by a borrower. Under the terms of the LMI policy, the insurer was also contractually entitled, after it paid a claim, to require the lender to assign the relevant loan contract and mortgage to the insurer, who could then undertake recovery action. We refused to grant relief because we considered that there is a clear intention of Parliament to require LMI providers to be licensed and that this LMI provider was only subject to the ordinary costs of compliance.

Refusal to grant licensing relief to a 'back office' service provider

- 65 We refused to grant licensing relief to a service provider of the mortgage industry. The services being provided were typical 'back office' activities, under an outsourcing arrangement, with limited customer contact, and no discretion to change information or content. Relief was refused because:
- to the extent that the exemption for clerks and cashiers applies, relief was not required; and
 - for other conduct, it is appropriate for the service provider to act as the representative of the licensee, which would ensure access to the licensee's external dispute resolution (EDR) scheme.

Responsible lending relief

Conditional relief for loans on policies provided to life insurance policy holders

- 66 We granted conditional relief to exempt seven life insurance companies from the responsible lending requirements of the National Credit Act for loans on policies provided to life insurance policy holders. The relief was sought for loans on policy that have been historically provided by life insurance companies to life insurance policy holders in relation to conventional life insurance policies. These policies typically comprise a risk protection benefit and an investment component. On maturity of the policy, a one-off terminal bonus may also be payable. The loan is secured by the life insurance policy. Such a loan is generally administered as a limited recourse loan with recourse only to the value of the policy.
- 67 While noting that the responsible lending obligations are fundamental to the consumer credit regime, we determined that the regulatory detriment of allowing the applicants to continue to provide loans on policy without complying with the responsible lending obligations is relatively low, and is outweighed by the resulting commercial benefit to the applicants. Conditional relief was granted for the exemption to apply only where:
- the life company provides a loan on policy to a policy holder under the terms and conditions of a life policy that was entered into before the date of the relief;
 - when the loan on policy is provided, the provision of the loan on policy would not cause the balance of the policy holder's account in relation to the credit contract to exceed 70% of the surrender value of the life policy; and
 - the life company will only have recourse to the amount that is payable to the policy holder under the life insurance policy as security for the obligations of the policy holder under the credit contract.
- 68 The relief also requires the life company to provide written notice to a borrower about the nature of the relief and inform them that they should consider obtaining independent advice, and of some of the consequences of entering into a loan on policy. Certain information is also required to be included in periodic statements. Some of the applicants also applied for relief from the credit guide obligations (in Div 2 of Pt 3-2 of Ch 3 of the National Credit Act) and the financial records obligations (in Div 2 of Pt 2-5 of Ch 2 of the National Credit Act). We did not grant relief from these obligations.

National Credit Code relief

Relief for premium funders

- 69 We granted an exclusion under s6(14) of the National Credit Code to premium funders so that premium funding loans that meet certain restrictions are not a provision of credit to which the National Credit Code applies. We granted relief on the basis that it only applies to the premium funder's contracts in circumstances where they are substantially equivalent to the types of insurance-by instalment arrangements that are covered by the exclusion in s6(8) of the National Credit Code. To further minimise risk to consumers, we imposed requirements that the premium funder be a member of an external dispute resolution scheme and have adequate compensation arrangements in place.

Other credit relief

Relief to extend time to lodge a licence application

- 70 We granted relief to extend time for a limited period for a registered person to lodge a credit licence application. Relief was granted because we considered there to be exceptional circumstances because the applicant had previously sought an exemption from the National Credit Act and ASIC was in the process of assessing that application.

Relief to reinstate lapsed credit representative authorisations

- 71 We granted relief to modify s67 of the National Credit Act to reinstate the authorisation of credit representatives, where authorisation had lapsed due to the operation of reg 25A of the National Consumer Credit Protection Regulations 2010 (National Credit Regulations). Regulation 25A causes an authorisation to cease to have effect if the person authorised is a registered person and has failed to cancel their registration within 15 business days. Relief was granted because a large number of registered persons who had been authorised as credit representatives subsequently inadvertently failed to cancel their registration. The relief also exempted the person who gave the authorisation from the requirement to revoke the lapsed authorisation and to notify ASIC.

No-action position for late lodgement of licence application

- 72 We adopted a no-action position for breach of the prohibition on engaging in credit activities in item 6 of Sch 2 of the Transitional Act. The no-action position was granted for a limited period for entities that were registered but

were unable to lodge a credit licence application with ASIC before 31 December 2010 due to technical difficulties. Relief was granted to these applicants because the failure to lodge their licence application in time was due to circumstances outside their control and they had successfully submitted a licence application early in January 2011.

No-action position for inadvertent breach of the National Credit Act

- 73 We adopted a no-action position in relation to an entity that engaged in credit activities while unregistered or unlicensed by referring consumers seeking insurance premium funding to a premium funder via its website. We adopted this position because any breach that may have occurred was inadvertent and due to a misunderstanding of the point-of-sale exemption and there was no intention to avoid the requirements of the National Credit Act. Further, the entity had acted promptly to obtain legal advice when it was made aware of the potential breach and, on receiving advice that its conduct fell outside the point-of-sale exemption, made changes to its website and business practices so that it no longer engaged in credit activities.

Refusal of approval of alternative compensation arrangements

- 74 The applicant sought ASIC approval of alternative compensation arrangements in order to progress a credit licence application. The applicant held professional indemnity (PI) insurance and was concerned it would only be adequate if considered together with other reserves. We refused to grant approval of alternative compensation arrangements because the applicant held PI insurance and so the compensation arrangements were within the type of compensation arrangements detailed in reg 12 of the National Credit Regulations and were not alternative compensation arrangements.

Refusal of relief to exempt an entity being deemed a 'prescribed unlicensed carried over instrument lender'

- 75 We refused to grant relief to exempt an entity from being deemed a 'prescribed unlicensed carried over instrument lender' (prescribed unlicensed COI lender) as defined in item 5A of Sch 2 of the National Credit Regulations. The entity was deemed a prescribed unlicensed COI lender because it was a person whom a judgment had been entered against as a result of civil action taken by an agency of a state or territory government under the old Credit Code in the last 10 years. We refused to grant relief because we were not satisfied that the application established that the costs of compliance with the requirements attaching to prescribed unlicensed COI lenders were disproportionate to the regulatory benefits of the requirements imposed, or that there were any grounds

for distinguishing the applicant from other prescribed unlicensed COI lenders who would be subject to the same requirements.

Refusal to take a no-action position on a legal practice referring clients to a credit provider

- 76 We refused to take a no-action position to allow a legal practice to refer clients to a particular credit provider on the basis that the applicant was aware of, and intended to comply with, the exemptions for referrers in the National Credit Regulations.

Publications

- 77 We issued the following regulatory guides in relation to credit relief during the period of this report.

Regulatory guides

RG 218 Licensing: Administrative action against persons engaging in credit activities

- 78 RG 218 describes the administrative powers available to ASIC to enforce the National Credit Act and outlines the matters we will take into account in determining whether administrative action is the most appropriate response in a particular case. It also provides some indicative guidance on the kinds of factors we will consider when determining the length of a banning order, including providing examples of relevant misconduct for illustration.

RG 220 Early termination fees for residential loans: Unconscionable fees and unfair contract terms

- 79 RG 220 provides guidance for mortgage lenders by setting out how provisions in the National Credit Code and unfair contract terms law apply to mortgage early termination fees, including:
- what costs and types of loss can be included in exit fees;
 - types of loss that should not be recovered through exit fees; and
 - the limited circumstances in which a lender may vary exit fees during the life of a mortgage.

H Other relief

Key points

We did not make any other decisions during the period of this report that do not fall within any of the categories mentioned in previous sections and that may be significant to other participants in the financial services and capital markets industries. We issued two relevant consultation papers.

Publications

- 80 We issued the following consultation papers in relation to other relief during the period of this report.

Consultation papers

CP 142 *Related party transactions*

- 81 CP 142 sets out our proposed guidance to promote better disclosure and governance for related party transactions. In particular, it offers updated guidance for companies and registered managed investment schemes on:
- (a) the application of the ‘arm’s length’ exemption from the requirement for companies to obtain member approval for related party transactions;
 - (b) the preparation of independent expert reports on related party transactions; and
 - (c) information that should be disclosed to investors about related party transactions.

CP 143 *Expert reports and independence of experts: Updates to RG 111 (Content of expert reports) and RG 112 (Independence of experts)*

- 82 ASIC’s reviews of expert reports identified examples of experts relying on information without adequately explaining their valuation methodology. CP 143 proposes additional guidance on the requirement for an expert report to be based on reasonable grounds. It includes discussion of the circumstances in which a discounted cash flow valuation will be appropriate for start-up or potential development assets, where there is no certainty of cash flow in the future.

Appendix: ASIC relief instruments

This table lists the relief instruments we have executed for matters that are referred to in this report and which are publicly available. The instruments are published in the *ASIC Gazette*, which is available via www.asic.gov.au/gazettes, except for credit instruments, which are published on our website under 'Credit relief'.

Table 1: ASIC relief instruments

Report para no.	Class order title or entity name	Instrument no. (Gazette no. If applicable)	Date executed	Power exercised and nature of relief	Expiry date
8–10	Bald Hills Wind Farm Pty Ltd (ACN 117 264 712)	10-1210 (A106/10)	07/12/2010	s911A(2)(l), Corporations Act This instrument provides conditional relief from the requirement to hold an AFS licence under s911A.	
18–19	Actividades de Construccion y Servicios S.A.	10-1111 (A098/10)	10/11/2010	s741(1)(a) and 741(1)(b), Corporations Act This instrument exempts a foreign scrip bidder from Pts 6D.2 and 6D.3 where the target issues bearer shares and hence has no share register. This instrument also modifies s707 so that shareholders of the target who receive shares as consideration under the foreign scrip bid are not required to give a prospectus in the event of an on-sale of that bidder's scrip within 12 months of receiving the foreign bidder's shares.	
20–22	Anatolia Minerals Development Limited	11-0075 (A009/11)	24/01/2011	s741(1)(a), 911A(2)(l), 992B(1)(a) and 1020F(1)(a), Corporations Act This instrument provides disclosure and licensing relief in relation to an employee share scheme for contractors.	
		10-1253 (A009/11)	1/12/2010	s741(1), Corporations Act This instrument provides relief from the operation of s707(3) and 707(4) for CDIs, options and shares issued under a scheme of arrangement and employee share scheme.	

Report para no.	Class order title or entity name	Instrument no. (Gazette no. If applicable)	Date executed	Power exercised and nature of relief	Expiry date
23	Coventry Resources Limited	10-1259 (A001/11)	21/12/2010	s741(1)(a), 911A(2)(l), 992B(1)(a) and 1020F(1)(a), Corporations Act This instrument provides disclosure and licensing relief in relation to an employee share scheme for casual employees.	
24	Australia Ratings Pty Ltd (ACN 141 393 375)	10-1139 (A102/10)	22/11/2010	s951B(1)(c), Corporations Act This instrument modifies s940C so that an FSG is taken to be provided to a client if it is accessible via a website.	
32	Lifestyle Fractional Management Limited (ACN 143 489 767)	11-0062 (A009/11)	21/01/2011	s601QA(1)(a) and 601ED, Corporations Act This instrument exempts the responsible entity of a title-based timesharing arrangement from the requirement to register each underlying timesharing scheme for each property arrangement as a separate scheme where the title-based timesharing arrangement is registered as a scheme.	
35–37	Challenger Managed Investments Limited (ACN 002 835 592)	10-1246 (A108/10)	16/12/2010	s601QA(1)(a), Corporations Act This instrument varies ASIC Instrument 10-0854 and exempts the responsible entity of two registered schemes from its obligation under s601FC(1)(d) to enable the responsible entity to make corrective withdrawal payments to some members.	
35–37	Challenger Managed Investments Limited (ACN 002 835 592)	10-1247 (A108/10)	16/12/2010	s601QA(1)(a), Corporations Act This instrument varies ASIC Instrument 10-0855 and exempts the responsible entity of a registered scheme from its obligation under s601FC(1)(d) to enable the responsible entity to make corrective withdrawal payments to some members.	

Report para no.	Class order title or entity name	Instrument no. (Gazette no. If applicable)	Date executed	Power exercised and nature of relief	Expiry date
38	Challenger Managed Investments Limited (ACN 002 835 592)	11-0105 (A011/11)	03/02/2011	s601QA(1)(a), Corporations Act This instrument varies ASIC Instrument 10-1246 and exempts the responsible entity of two registered schemes from its obligation under s601FC(1)(d) to enable the responsible entity to make corrective withdrawal payments to some members.	
38	Challenger Managed Investments Limited (ACN 002 835 592)	11-0106 (A011/11)	03/02/2011	s601QA(1)(a), Corporations Act This instrument varies ASIC Instrument 10-1247 and exempts the responsible entity of a registered scheme from its obligation under s601FC(1)(d) to enable the responsible entity to make corrective withdrawal payments to some members.	
39–40	Certitude Global Investments Limited (ACN 082 852 364)	10-1106 10-1116 (A100/10)	10/11/2010	s1020F(1)(c) and 1017E(4), Corporations Act These instruments modify s1017E(4) to allow the responsible entity of a registered scheme to hold application monies for a period up to 80 days before issuing units to investors.	
41–42	RE1 Ltd (ACN 145 743 862) in its capacity as responsible entity of Westfield Retail Trust 1 (ARSN 146 934 536) and RE2 Ltd (ACN 145 744 065) in its capacity as responsible entity of Westfield Retail Trust 2 (ARSN 146 934 652)	10-1077 (A096/10)	03/11/2010	s601QA(1)(b), Corporations Act This instrument modifies Pt 5C.7 to allow each responsible entity to give financial benefits out of scheme property to a related party without obtaining member approval.	

Report para no.	Class order title or entity name	Instrument no. (Gazette no. If applicable)	Date executed	Power exercised and nature of relief	Expiry date
43–44	National Mutual Funds Management Ltd (ACN 006 787 720) in its capacity as responsible entity of Australian Property Fund (ARSN 096 853 619)	10-0926 (A088/10)	30/09/2010	s601QA(1)(b), Corporations Act This instrument modifies s601KB(1), 601KB(3)(b) and 601KB(3)(c) to enable a withdrawal offer to be made while the scheme is non-liquid.	
46–47	Dourado Resources Limited (ACN 131 090 947)	10-1057 (A096/10)	27/10/2010	s655A(1)(b), Corporations Act This instrument modifies s650B(1) and (2) to allow the improvement of cash and share bid consideration by also offering options. This instrument also modifies s625(3) to insert a new condition regarding quotation application for the options.	
51	Macquarie Group Limited (ACN 122 169 179)	10-1213	8/12/2010	s259C(2), Corporations Act This instrument revokes ASIC Instrument 10-0074 and provides conditional exemption from the prohibition against indirect self-acquisition in s259C(1).	
60–61	Westpac Banking Corporation (ACN 007 457 141)	10-1224 (A108/10)	14/12/2010	s951B(1)(c), Corporations Act This instrument modifies s940C so that an FSG is taken to be provided to a client if it is accessible via a website.	

Report para no.	Class order title or entity name	Instrument no. (Gazette no. If applicable)	Date executed	Power exercised and nature of relief	Expiry date
66–68	AMP Life Limited (ACN 079 300 379)	10-1151 [*]	30/11/2010	s163(1)(a) National Credit Act	These instruments exempt the applicants from Divs 3 and 4 of Pt 3-2 of the National Credit Act, subject to certain restrictions.
	AIA Australia Limited (ACN 004 837 861)	10-1153 [*]	30/11/2010		
	Asteron Life Limited (ACN 001 698 228)	10-1155 [*]	30/11/2010		
	MLC Limited (ACN 000 000 402)	10-1156 [*]	30/11/2010		
	Suncorp Life and Superannuation Limited (ACN 073 979 530)	10-1157 [*]	30/11/2010		
	Colonial Mutual Life Assurance Society Ltd (ACN 004 021 809)	10-1158 [*]	30/11/2010		
	National Mutual Life Association of Australasia Limited (ACN 004 020 437)	10-1159 [*]	30/11/2010		
69	Principal Finance Pty Ltd (ACN 008 081 712)	10-1009 [*]	14/10/2010	s6(14), National Credit Code This instrument excludes a provision of credit from the operation of the National Credit Code, subject to certain restrictions.	
70	Sydney Legacy (ACN 000 048 868)	10-1255 [*]	20/12/2010	s41(1)(c), Sch 2, Transitional Act This instrument extends the time for the applicant to lodge a credit licence application by declaring that Divs 1 and 2 of Sch 2 of the Transitional Act apply as if those divisions were modified or varied by, in paragraph 3(b), omitting 31 December 2010 and substituting a later date.	

* This instrument is published on our website at www.asic.gov.au under 'Credit relief', not in the *ASIC Gazette*.

Report para no.	Class order title or entity name	Instrument no. (Gazette no. if applicable)	Date executed	Power exercised and nature of relief	Expiry date
71	Relief to reinstate lapsed credit representative authorisations (individual relief to a large number of entities)	10-1124*	24/11/2010	s109(1)(a)and(c), National Credit Act This instrument modifies s67 and exempts affected people from requirements in s70 and 71.	

* This instrument is published on our website at www.asic.gov.au under 'Credit relief', not in the *ASIC Gazette*.