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Supplement to Managed Funds Transaction Cost Research

Impact of ASX Managed Funds Service

SYDNEY
Level 1
2 Martin Place
Sydney NSW 2000
T +61 2 9293 3700
F +61 2 9233 5847

MELBOURNE
Level 20
303 Collins Street
Melbourne VIC 3000
T +61 3 8621 4100
F +61 3 8621 4111

ABN 35 003 186 883
AFSL 239 191

200709_2

www.ricewarner.com

1. Background

Rice Warner provided a report for ASX entitled *Managed Funds Transaction Cost Research - Impact of ASX Managed Funds Service, July 2012 (the Report)*. The report provided estimates of the transaction cost reductions to participants and other stakeholders across the industry, if a service were available to facilitate the quotation and settlement of managed funds.

The cost reductions stated in the Report reflected the design of the ASX Managed Funds Service (AMFS), which would facilitate the dissemination of fund unit prices as well as the automation of applications and redemptions of managed fund units using ASX's electronic settlement system, CHESS. This automation aims to reduce paperwork, manual processes and ultimately, transaction costs.

Since the publication of the report and as a result of further consultation with ASIC, ASX has decided to vary the design of the business processes supporting the AMFS in one important respect. Rather than managed fund prices being quoted on ASX PriceDisplay, it is now intended that they will be made available to brokers via a daily feed using the ASX ReferencePoint service.

Rice Warner has been asked to consider and provide an opinion on whether this design change will have any impact on the cost reductions set out in the Report.

2. Impact of design change on industry cost reductions

Section 2.2 (ASX Managed Funds Service processes) of the Report described the AMFS processes, that section noted, in particular, that:

'The requirement for product manufacturers to engage a broker to maintain prices of the products on ASX PriceDisplay may in some cases increase overall costs. From the interviews we conducted for our research (refer to Section 3.1.2 [Telephone interviews]), we understand that this cost will be low or even zero as the broker will weigh up this function against the overall sell-side relationship with the product manufacturer'.

Under the modified process, the product manufacturer would no longer be required to engage a broker to maintain prices of the products.

Prices would be disseminated to the market through the ASX ReferencePoint service, rather than through ASX PriceDisplay. This may increase the AMFS adoption costs to some brokers who need to establish the functionality to receive fund prices through the ASX ReferencePoint service. In the context of the Report, this cost would form part of *Section 4.2 Other costs*:

'System development costs for industry participants e.g. systems upgrades to accommodate the new CHESS messaging (under the AMFS only)'.

However, these non-transaction related costs were not included in our cost estimates.

On this basis, the estimated transaction cost reductions set out in the Report would be unchanged if the modified price quotation process were to be adopted.

This report was prepared for ASX by Jack Ding. It was peer reviewed by Richard Weatherhead.

Prepared by



Jack Ding
Analyst
Telephone: (02) 9293 3700
jack.ding@ricewarner.com

Peer Reviewed by



Richard Weatherhead
Principal
Telephone: (02) 9293 3700
richard.weatherhead@ricewarner.com

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