

Mr G Yip
Senior Lawyer
Investment Managers and Superannuation
Australian Securities and Investments Commission
Level 24 120 Collins Street
Melbourne VIC 3001

3 July 2013

Dear Mr Yip

CP208 SUBMISSION

I write in relation to Consultation Paper 208 “ASX Managed Funds Service: Relief from the application form requirement”. We unreservedly support the proposal for the ASX to implement the ASX Managed Funds Service (AMFS) and accept applications from investors electronically. In our view, such a service will improve industry efficiency, lower costs and broaden investor choice.

We understand that AMFS will only be available to managed investment schemes operating with a short form PDS and that there will be no secondary market trading. We further understand that AMFS will be open to CHESS participants who will act as brokers for their clients who will invest on the basis of forward prices provided by the responsible entity of the relevant scheme. AMFS brokers will be required to ensure on behalf of responsible entities that all relevant offer documents are made available to investors prior to investing. We assume that such offer documents can be made available either hard copy or electronically.

We see the benefits of AMFS as resulting in improved investor choice, reporting and settlement efficiency. In regards to risks, we believe that apart from the operation of paragraph 33 discussed below, the controls to ensure that investors receive a PDS appear to be strong and that with clear warnings investors will be made aware that the investment is not being made on a trading market.

The present requirement for investors to make applications to a managed investment scheme by way of a paper application is archaic, error prone, untimely and costly to administer. AMFS represents an opportunity to make substantial improvements to the existing process and likely to drive broader industry efficiencies in response.

We note in paragraph 26 that the CHESS message related to the application or redemption needs to include information specific to the scheme and that this may require amendments to currently available systems. These changes must be made and tested before implementation.

Paragraph 33 refers to the requirement that the responsible entity advise investors within 5 days information about the availability of the PDS and any supplementary PDS. This is not workable from an investment manager's perspective, as we require certainty that the monies can be invested to ensure existing investors are treated fairly. For example, portfolio transactions executed to manage new unitholder flows may result in leverage if these new unitholder flows are subsequently reversed after settlement of the portfolio transactions.

To improve timeliness, and to ensure fairness between new and existing unitholders, I propose that rather than have a separate correspondence with the unitholder, the advice in relation to the PDS should accompany the transaction confirmation ie the transaction confirmation might include additional words such as "Please view the Product Disclosure Statement (PDS) for [nameoffund] by accessing the following [www.asx.com.au/amfs/\[nameoffund\]](http://www.asx.com.au/amfs/[nameoffund]). If, after having reviewed the PDS, you wish to have your application monies returned, you may request this subject to the terms of the Cooling Off section in the PDS."

We note the added protection in paragraph 42 and 43 that investors are required to acknowledge they have received a PDS before a transaction can be made on their behalf, including from an intermediary if an intermediary is involved. The protections in paragraph 33 will only be required if the protections in paragraph 42 and 43 are not effective.

We note that the ASX is liaising with AUSTRAC in relation to AML&CTF and that a clear and certain position is required on this matter before AMFS can proceed.

In relation to the specific questions posed in your proposal we offer our responses from our viewpoint as an investment manager and attach at Attachment A.

Kind regards

Rick Steele
CEO

ATTACHMENT A

| No. | Question | Response |
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| B1Q1 | Do you agree with our proposal to grant relief to responsible entities? | Yes |
| B1Q2 | Do you consider that the conditions for relief are appropriate compared to the conditions outlined in [CA 02/260]? | Yes |
| B1Q3 | Are there any other conditions that should be imposed on responsible entities? | No |
| B1Q4 | Are the proposed changes to the ASX Operating and ASX Settlement Rules, in relation to responsible entities (see paragraph 37), adequate as a basis for giving relief? | Yes |
| B1Q5 | How would the proposed relief affect your compliance costs? | No change |
| B2Q1 | Do you consider that the conditions imposed on the AMFS brokers (and any settlement participants) are unduly burdensome? | No, although I note any requirement to provide hard copy information to investors rather than electronic will reduce the effectiveness of the proposal. |
| B2Q2 | Are there any other conditions that should be imposed on the settlement participants or on the AMFS brokers? | No |

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| B2Q3 | Are the proposed changes to the ASX Operating and ASX Settlement Rules, in relation to AMFS brokers, settlement participants and online brokers (see paragraphs 38-48) adequate as a basis for giving relief? | Yes |
| B2Q4 | Should, and how would, compliance with the requirement to provide a current PDS for the managed investment product to an investor be more effectively enforced in the context of the AMFS? | ASX provides a central online library of all available PDS's and Supplementary PDS's with centralised tracking by investors rather than at the broker level. This will come at a cost and may be something to consider in future rather than at the outset. |
| B2Q5 | As the AMFS is not covered by the NGF, do you consider that the risk of inadequate compensation or inaccurate perceptions about compensation arrangements should be addressed in PDS's, and that this should be a requirement for relief? Please explain why or why not? | No. There is no such protection afforded by other platforms offering managed investment schemes. Existing regulation of managed investment schemes should apply. |
| B3Q1 | Are there any other factors that we should consider when granting relief, and why should the factors be considered? | No |
| B3Q2 | Do you consider that investors are likely to confuse the AMFS with a trading platform? If yes, what changes to the AMFS should be made to reduce this likelihood of confusion? | No. Clear wording at relevant opportunities will make the distinction clear. |

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| B3Q3 | What effects do you foresee on the distribution arrangements of schemes as a result of implementing AFMS? | The introduction of AMFS will likely result in a significant increase in demand for managed investment schemes over the medium term. |
| B3Q4 | What effects do you foresee the AFMS will have on the use of financial advice by investors in simple managed investment schemes? | To the extent that SMSF investors are heavy users of direct shares and the current average allocation of SMSF's as published by the ATO indicate very poor diversification, then the introduction of managed investment schemes which themselves are typically well diversified will improve the risk profile of SMSF's generally. |
| B3Q5 | What other negative or positive effect, if any, do you foresee the AFMS may have on investors or industry participants? | <p>The introduction of AFMS will improve industry efficiency, lower costs and broaden investor choice.</p> <p>As a competitor to wrap platforms it is likely to have the effect of increasing competition and lowering the price of wrap services.</p> <p>It may also increase overseas investor interest that make sharemarket rather than managed investment scheme investments. This may raise issues for responsible entities in administering such investments.</p> |
| B3Q6 | What do you foresee the net direct and indirect cost impacts of the AFMS and specifically the proposed relief will be on your organisation? | While there may be specific costs imposed on our organisation to participate, by increasing demand for our products it will improve our profitability and our ability to grow the firm. |