

July 15 2013

Aileen Tse, Lawyer
Investment Managers and Superannuation
Australian Securities and Investments Commission
GPO Box 9827
SYDNEY NSW 2001

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ABN 46 102 469 821
UCA Cash Management Fund Limited
ABN 41 075 948 444
UCA Growth Fund Limited
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UCA Financial Planning Pty Ltd
ABN 37 151 508 806

Dear Ms Tse,

Consultation Paper in relation to charitable investment fund matters

Our submission in relation to CP 207 is enclosed.

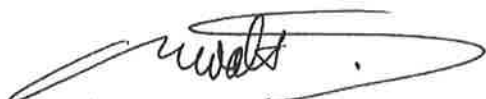
We have endeavoured to answer each question, mainly from the perspective of UCA Funds Management.

We have also enclosed a copy of our 2012 Annual Report and April 2013 Newsletter to provide information about our organisation, the funds we offer and the makeup of our investor base.

We look forward to ASIC's consideration of our submission and others in our sector.

We request that this submission remain confidential as it contains information that could prejudice the standing of our organisation.

Yours sincerely,



Michael Walsh
Executive Director, Chief Executive Officer

UCA Funds Management - Response to ASIC CP207

SUMMARY

Our response to ASIC's consultation in this instance is built on 7 principles:

1. That the concept of charitable fundraising includes seeking financial support from *outside* an organisation's associates.
2. Charitable organisations operate social enterprises that provide commercial services which are aligned with their mission. Reinvested surplus then supports this mission.
3. As an existing AFS licence holder we welcome ASIC's role in supporting industry confidence and investor protection.
4. ASIC's conditions of retaining the exemptions (Option 2) are unworkable and against investors interests.
5. If we were required to retain capital to meet licence conditions, then this must not endanger our charitable status.
6. If we decide to meet these new conditions with a full licence and a fund/organisational restructure, then it would be adverse to our organisation and investors to endeavour to implement this by June 2014.
7. The process of adjusting to ASIC's plans is made more challenging by the conjunction of other regulatory changes - these also require more time to consider and implement any required changes.

Overall, the proposed regulatory changes impose significant compliance and administration imposts that will reduce or in some cases eliminate the charitable investment sector's ability to deliver the funding for the charitable purpose which supports their mission.

B1 Under Option 1, we propose to remove all existing exemptions in RG 87 for new charitable investment fundraising—except exemptions from the AFS licensing requirements of the Corporations Act for fundraisers that only raise investment funds from associated entities.

B1Q1 Do you agree with this proposal? If not, why not?

A core principle of charitable investment fundraising is to enable charitable organisations to seek funding support for their mission from public sources outside their member base. To facilitate this, certain taxation and other regulatory concessions have been made available. ASIC's existing exemptions are in step with this principle.

We recognise and support ASIC's stated "regulatory objectives of facilitating confident and informed investors and maintaining fair and efficient markets". However, and with respect, ASIC CP 207 has not made a case for how the exemptions have failed those regulatory objectives by pointing to any failures within our sector to meet these objectives. Our understanding is that the charitable investment fundraising sector has a very strong record of investor protection and confidence. UCA Funds Management offers funds with a solid investment track record going back as far as 1985.

B1Q2 Do you believe there is any basis to apply a less rigorous regulatory framework to charitable investment fundraisers' investment funds generally? If so, please explain.

To date, yes. The charitable investment fundraising sector operates within a framework of lower costs and conservative investment strategies, supported by significant resources, governance and capital backing; mainly from Christian churches. This poses less risk for investors and has justified the lower level of regulation and oversight that has been applied.

B1Q3 Do you believe it is reasonable to apply a less rigorous regulatory framework to charitable investment fundraisers that only raise investment funds from associated entities? If not, why not?

No. Whether the investor is an associate or not is not relevant to their need for information and protection. The degree of association within a Church or charitable group of organisations varies. Association should not be the basis on which regulatory exemptions in this area are applied.

B1Q4 Do you believe it is reasonable to distinguish between charitable investment fundraisers that raise investment funds from associated entities only and those that raise funds from wholesale investors more generally (including those that are not associated entities of the charity)?

No. The existing regulatory distinction between 'retail' and 'wholesale' investors is a proven and workable framework on which to apply varying levels of regulation. We prefer that associated entities should fit within a retail or wholesale distinction.

B1Q5 What benefits do you consider will result from this proposal?

The perceived benefits may be greater confidence from licensing, regulatory oversight and capital backing.

B1Q6 What disadvantages do you consider will result from this proposal?

The charitable investment fundraising sector will shrink, its costs will rise and it will provide a lower level of fundraising support for its charitable purpose or mission. This is potentially a case of a negative impact on social services for very little gain in investor protection.

The sector's ability to offer a conservative, low cost and ethical investment alternative to mission-aligned investors will also diminish.

B1Q7 How would this proposal affect your organisation's ability to pursue its charitable purpose? For example, to what extent would it affect your organisation's ability to invest in assets, programs or services associated with your charitable purpose?

If UCA Funds Management were to cease fundraising from non-associated entities and retail investors, then the decline in funds under management would mean a smaller pool of funds from which to make loans to associates and a decline in its operating surplus. Both of these factors would be detrimental to our funding of the work of the Uniting Church in Australia Synod of Victoria/Tasmania.

If UCA Funds Management were to become fully-licensed in order to continue to fundraise from non-associated entities and retail investors, then the increased costs of compliance, restructuring and capital adequacy will also reduce its operating surplus and the grants it makes to the work of the Uniting Church in Australia Synod of Victoria /Tasmania.

Another constraint of restricting our services to associated organisations is that placed on our mission as a social enterprise; that is, to demonstrate to our investors and the broader community how a responsible steward of invested funds should operate.

UCA Funds Management pays its staff fair salaries with an emphasis on work-life balance. We do not pay performance-related fees or bonuses, nor commissions to financial advisers. Throughout the Global Financial Crisis our investment management team has kept its focus on preserving high levels of investment income. It has also taken measured risks based on a selection of high quality, relatively stable securities.

UCA Funds Management has also demonstrated it can outperform its benchmarks while having an ethical policy that avoids investing in companies whose activities are not in step with our values of social justice and caring for the environment.

We believe that this culture improves the diversity of the financial services industry by showcasing how investor funds can be effectively managed at low cost, without conflicted remuneration and achieve competitive returns while maintaining an ethical policy derived from Christian principles.

B1Q8 Would complying with this proposal require you to restructure your business in any way?

See response below.

B1Q9 What impact will this proposal have on your business costs? How will you manage these costs? Please quantify and substantiate any costs that you consider would arise.

UCA Funds Management already operates a compliance and governance framework to meet its AFS licence conditions. If we were to become licensed as a responsible entity our additional costs would comprise (figures are guesstimates at this stage):

- external custody ~ 4bps per annum or \$320,000
- additional compliance costs ~ \$200,000 then \$100,000 per annum
- capital requirements ~ 0.5% of retail funds under management
- additional disclosure costs – issuing and registering a product disclosure statement ~ \$100,000
- product restructuring costs – developing a proposal to convert debentures to managed investment schemes ~ \$100,000
- administrative changes to address changes in product terms ~ \$100,000

We are yet to accurately quantify these items but it is clear they are a significant impost. While we have an inherent annual operating surplus to meet them, it would result in a lower surplus that would have a knock on effect to the work of the Uniting Church and its agencies and/or provide a lower return to investors.

B1Q10 Will this proposal have any significant impact on investment fundraising by charitable organisations generally? For example, do you believe it will impact some investors' appetite for investments with charitable investment fundraisers and cause them to move investment funds to ADIs? Please explain.

We believe that most charitable investment fundraisers will restrict their activities to associated entities. Hence they will decline.

The feedback we receive from several associated entities is that they prefer UCA Funds Management to also offer its services to non-associated entities and retail investors. This has the benefits of increased diversity, accountability and growth. It also develops a common *investing in mission* interest with individuals that have an association amongst the Uniting Church family. Therefore, we believe our investors would potentially view this restriction negatively.

B1Q11 Are there any practical problems with the implementation of this proposal? Please give details.

Charitable investment fundraisers operate within a range of legal structures with both close and looser associations. For example within the Uniting Church there are varying levels of 'control' and

different parts of the organisation pursue a different 'charitable purpose'. There are also variations from one Synod (State or region) to another. For these reasons the definition provided in CP 207 of an associated entity is impractical. Further, it would be un-necessarily legalistic to further refine and then follow this definition on a case by case basis.

Again, it is also impractical to assume associated entities somehow have a lesser need for 'investor protection and confidence'. For example, many of UCA Funds Management's associated investors make investment decisions with the benefit of a finance or investment committee as would other institutional or wholesale investors.

There are also administrative complexities associated with restricting further investment (eg. regular savings plans, payroll contributions) from non-associated entities and retail investors. These arrangements are already contracted. If this proposal is adopted we suggest that ASIC allow existing investment contracts to continue (unless they are varied) under the former exemptions, similar to the approach it has adopted for conflicted remuneration arrangements under FOFA.

Another practical difficulty is that the process of adjusting to withdrawal of these exemptions is the conjunction of other regulatory changes: changes to APRA's Banking Act exemptions for Retail Charitable Development Funds (RCDFs); ASIC's capital requirements on retail debenture offers; ASIC's proposed changes to custody regulations and capital requirements; as well as the uncertainty associated with the tax-exempt status of charities' commercial activities - these changes intersect with our organisations in different ways and at different times. This makes it difficult to determine the appropriate business model given the high level of uncertainty associated with the regulatory and political environment.

C1 Under Option 2, we propose to retain the existing exemptions in RG 87 (with some modification) but, for new charitable investment fundraising, to require:

(a) charitable investment fundraisers that fundraise from retail investors (other than associated entities) under ASIC's exemptions to comply with the AFS licensing requirements (see proposal C2); and

(b) charitable investment fundraisers that are relying on the exemptions under RG 87 to meet the following additional conditions of relief—a requirement to:

(i) hold 75% of assets (by value) in charitable assets (see proposal C3);

(ii) meet capital and liquidity requirements (see proposal C4);

(iii) not issue at-call or short-term investment products (see proposal C5);

(iv) receive written acknowledgement from retail investors before an investment product is issued (see proposal C6);

(v) not use certain terms, such as 'account', 'at-call' or 'deposit' (see proposal C7);

(vi) meet a breach reporting requirement, including a requirement to prepare a director's statement on compliance with the organisation's breach reporting obligation (see proposal C11); and

(vii) lodge an audit report (see proposal C12); and

(c) charitable investment fundraisers that are relying on the exemptions under RG 87 to meet the existing conditions of relief (which we propose to modify)—including:

(i) additional disclosure requirements (see proposal C8);

(ii) a modified requirement for lodging financial statements (see proposal C9); and

(iii) the requirement to lodge identification statements, but with modified content requirements (see proposal C10).

C1Q1 Do you agree with this proposal? If not, why not?

We agree with the proposal to retain exemptions but do not agree with the conditions on which it is based as they will negatively impact investors' interests and confidence.

C1Q2 Is it reasonable to provide the proposed exemptions on the basis that investors may be motivated in part by charitable objectives and so are likely to have different expectations of regulatory protections?

Investors take a range of factors into account when making investment decisions. Our rationale for having the exemptions is stated in B1Q1 above. We do not believe that charitable objectives should dilute the integrity of an investment. But we also believe that this sector has demonstrated that the

integrity of our investment approach can be the basis for less strenuous regulation. Investors in schemes that have charitable objectives demonstrate that they invest in this sector as they wish to contribute to the benefits this sector provides. The manner of regulation of UCA Funds Management funds is fully disclosed in all our offer documents.

C1Q3 Is there any other basis for the proposed exemptions in light of the purposes of the relevant provisions of the Corporations Act?

See response below.

C1Q4 Is this proposal preferable to the alternative proposal (Option 1) set out in Section B? Please give reasons.

No, because we believe that meeting these conditions would negatively impact investors' interests and confidence. Specifically proposals C1(b)(i), (iv) and (v) (the term 'account') are contrary to those interests.

C1Q5 What value and proportion of your organisation's assets are on-lent as loans (whether to associated entities or otherwise), or invested in illiquid assets? To what extent does your organisation require investors to bear the risk of default on moneys your organisation lends?

UCA Funds Management had \$790 million in pooled funds under management at June 2013. Within its \$518 million in the wholesale Cash Portfolio fund there was \$17.8 million in loans to associated entities. Within its \$136 million retail Development Fund there was \$13.9 million in loans to associated entities and the remainder was invested into the Cash Portfolio. Its remaining growth and equities funds use the Cash Portfolio for their cash exposure, which ranges from 5% to 20% depending on the fund.

Capital invested in our two funds that make loans is guaranteed by the Uniting Church in Australia Property Trust (Victoria and Tasmania) ("Property Trust"). Accrued income is not guaranteed.

C1Q6 What benefits do you consider will result from this proposal?

None.

C1Q7 What disadvantages do you consider will result from this proposal?

These conditions are adverse to investors' interests and confidence.

C2 *We propose that a charitable investment fundraiser that accepts investments from retail investors (other than associated entities):*

(a) should be subject to the AFS licensing provisions of the Corporations Act; and

(b) if required to hold an AFS licence, must comply with the duties and obligations of AFS licensees.

C2Q1 Do you agree with this proposal? If not, why not?

No. Our interpretation of associates includes individuals. The Uniting Church has registered members, many of whom are also involved in our associated *entities*. They expect and are given the same level of investment stewardship for both their individual and entity-based funds. This suggests there is no need for a differing approach to regulation of these two areas aside from the generally accepted distinction that ASIC makes between retail wholesale investors.

A significant benefit that we are able to offer to the pastoral and community work of the Uniting Church is the Direct Offering program that allows parishioners to contribute on a regular basis. This proposal will reduce the effectiveness of this program.

C2Q2 What benefits do you consider will result from this proposal?

The perceived benefits of licensing are mentioned in B1Q5.

C2Q3 What disadvantages do you consider will result from this proposal?

See C2Q1 & B1Q6

C2Q4 Do you consider there are any specific obligations imposed on AFS licensees under the Corporations Act that should not apply to AFS licensees that are charitable investment fundraisers? If so, please give details and reasons.

Charitable investment fundraisers are typically not for profit organisations within a broader group (mainly a Church) that also has not for profit status. While that group has considerable resources and assets it does not have the capital structure that is found in the commercial finance sector. It may be helpful if charitable investment fundraisers were offered a means of meeting any capital requirements that is suited to their structure; for example, a guarantee from the Church Property Trust instead of a bank guarantee.

C2Q5 Would complying with this proposal require you to restructure your business in any way?

Yes, we would need to apply for a licence to operate as a responsible entity. In addition, we would consider whether our existing retail (debenture and RCDF) funds could be restructured as managed investment schemes and registered with ASIC. Our offer document disclosure would also need to comply with the shorter PDS regime. We would also restructure our capital and liquidity requirements. And we would appoint an external custodian.

In undertaking this restructure consideration would also need to be given to any impact on our governance framework and our status as a non-for-profit entity and any impacts this might have on the Church's not for profit status.

The steps (and their order) in managing this restructure process are inherently complex.

C2Q6 If this proposal is implemented, would you respond by changing the way your organisation currently fundraises?

If we undertook the restructure in C2 Q5 above we would seek to expand our retail investments base amongst associated individuals of the Uniting Church. We would not expect to market our services beyond that base.

The alternative appears to be to close our retail funds to new investment and manage the existing client base in run off mode.

C2Q7 What impact will this proposal have on your business costs?

The cost of the restructure described in C2Q5 is obviously very significant. This is exacerbated by the demands of multiple legislative changes suggested for implementation (see B1Q11 and B1Q9) over a short time frame on what is a small organisation.

C2Q8 Are there any practical problems with implementation of this proposal? Please give details.

Some of our funds are restricted for investment by tax concession charities only. Most of these organisations would meet the requirements of a wholesale investor although we have not undertaken the sophisticated investor test when they invested; other investors in these funds are retail. It is impractical to split those funds along retail and wholesale lines.

C3 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser must:

(a) ensure that when any debenture or interest in a managed investment scheme is issued, and at all times while these debentures or interests are held, 75% of the debenture issuer's or scheme's assets (by value) are in charitable assets, except where this would be impracticable;

(b) during any period when it is impracticable to comply with proposal C3(a) (e.g. because there are no charitable assets that can properly be acquired or it would not be practicable to do so because non-charitable assets cannot be liquidated), ensure that:

(i) no new debentures or interests are issued; and

(ii) ASIC is notified that the charitable investment fundraiser is not complying with the requirement and advise what steps will be taken to meet the 75% requirement as soon as practicable;

(c) revalue its assets whenever it has reason to believe the 75% test would not be met if a valuation were done; and

(d) when valuing assets for this requirement:

(i) only include as charitable assets those assets that are directly related to the disclosed charitable purpose of the organisation; and

(ii) ensure that a member of the governing body of the charitable investment fundraiser has signed a document setting out why the relevant asset is directly related to the organisation's disclosed charitable purpose.

C3Q1 Do you agree that charitable investment fundraisers should be subject to a minimum charitable investment requirement?

No. Investors in our funds are entitled to the same level of investment management flexibility and asset diversification as any other investor.

C3Q2 Do you agree with the proposed definition of charitable assets in proposal C3(d)(i)? If not, please explain why not and give suggestions.

We do not agree with the charitable assets distinction.

C3Q3 What benefits do you consider will result from this proposal?

None.

C3Q4 What disadvantages do you consider will result from this proposal?

This will mean overconcentration of investment portfolios into one asset type and ownership structure. This will probably lead to constraints on liquidity and diversification. In effect, it would mean that charitable investment fundraiser funds would be more vulnerable to failure in times of a market crash, recession or a crisis in that organisation.

C3Q5 Is the proposed amount of 75% the appropriate amount if such a requirement is to apply? For example, is the proposed percentage high enough to ensure the investment product is likely to appeal primarily to investors whose priority is to support the organisation's charitable purpose, as distinct from investors who are primarily concerned with being repaid or acquiring a financial return on their investment?

See response above.

C3Q6 Is the proposed amount of 75% low enough to allow charitable investment fundraisers sufficient flexibility to manage the financial needs of the organisation (e.g. to maintain sufficient liquidity to allow investor redemption requests to be met, or to ensure charitable investment fundraisers satisfy the proposed capital and liquidity requirements in proposal C4)?

See response above.

C3Q7 Do you think a principles-based charitable investment requirement would be preferable (e.g. a requirement on charitable investment fundraisers to invest investment funds in charitable investments as much as is practicable, having regard to the financial needs of the charitable debenture issuer or scheme)? Alternatively, do you think this should be an additional requirement to proposal C3? Please explain.

Yes. Charitable investment fundraisers have as their main object to provide finance and a treasury function for their group. The level of that finance varies according to a range of factors relating to demand, economic conditions or the ability to offer competitive interest rates.

C3Q8 Would complying with this proposal require you to restructure your business in any way?

See response below.

C3Q9 What impact will this proposal have on your business costs? How will you manage these costs?

We do not consider this proposal as a viable alternative for UCA Funds Management as it is against the interests of our investors.

C3Q10 Are there any practical problems with the implementation of this proposal? Please give details.

We cannot foresee a situation where there would be sufficient demand for debt finance from our associated entities to meet the 75% of charitable assets threshold. Indeed, moving investment in charitable assets (i.e. lending) towards that threshold would probably compromise our credit assessment process and investment filters.

C4 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser that fundraises from retail investors (other than associated entities) must:

(a) if it issues debentures, meet the capital and liquidity requirements proposed to apply to retail debenture issuing lenders under our Consultation Paper 199 *Debentures: Reform to strengthen regulation (CP 199)*, including a requirement to maintain:

(i) a minimum capital ratio of 8% of its risk-weighted assets; and

(ii) a minimum holding of 9% of its liabilities in high-quality liquid assets; and

(b) if it issues interests in a managed investment scheme, meet a requirement to maintain:

(i) minimum liabilities which are not payable while any retail investor redemption request has not been met, and the time since the request was made exceeds the time that members would have expected for meeting redemption requests when they invested ('subordinated liabilities') equalling at least 8% of the scheme's risk-weighted assets; and

(ii) a minimum holding of 9% of its liabilities (including interests on issue subject to redemption rights) in high-quality liquid assets.

C4Q1 Do you agree that charitable investment fundraisers that fundraise from retail investors (other than associated entities) should be subject to a minimum capital or subordinated liability requirement? If not, why not?

No. UCA Funds Management has secured a guarantee from the Uniting Church in Australia Property Trust (Victoria) ("Property Trust") for capital invested in our cash funds. Our growth and equity funds are unitised and there is no such guarantee. The manager of the funds, UCA Funds Management, also enjoys the support of the Property Trust.

C4Q2 Is the proposed capital requirement of 8% of risk-weighted assets high enough to define charitable investment fundraisings that should be eligible for exemption, given the risks and the fact that charitable investment fundraisers are not subject to prudential supervision or a requirement to comply with the exempted provisions in the Corporations Act?

The Property Trust could feasibly meet this capital requirement. Please note that our growth and equity fund debentures are issued as units which are revalued daily along with movement in the value of underlying assets. Therefore, given the manner in which our funds operate, we would consider developing a proposal to investors to restructure them into managed investment schemes allowing them to fall under the regulatory framework and capital requirements that ASIC places on these funds.

C4Q3 Do you agree that charitable investment fundraisers that fundraise from retail investors (other than associated entities) should be subject to minimum liquidity requirements?

See response below.

C4Q4 Is the proposed liquidity requirement of 9% of liabilities in high-quality liquid assets high enough to define charitable investment fundraisings that should be eligible for exemption, given the risks and the fact that charitable investment fundraisers are not subject to prudential supervision or a requirement to comply with the exempted provisions in the Corporations Act?

Yes, though those requirements should be consistent with those that apply to other ASIC-regulated entities and schemes.

C4Q5 Should the minimum capital or subordinated liability requirements and minimum liquidity requirements only apply to some charitable investment fundraisers (e.g. those that on-lend the funds raised or that on-lend the funds raised to certain types of projects only, or those with investment funds above a prescribed threshold)? Please give reasons. If you believe these requirements should only apply to a sub-group of charitable investment fundraisers, please describe and give reasons.

See response below.

C4Q6 Is there a basis to treat managed investment schemes differently because investors do not have the right to sue a corporation for a debt in order to obtain their rights?

Yes. This appears to be consistent with ASIC's approach for other ASIC-regulated entities and schemes.

C4Q7 Do you believe the proposed capital and liquidity requirements should only apply to charitable schemes where retail investors would have expected when they invested that they would receive a fixed return or be able to redeem over fixed timeframes?

Yes, if the capital requirements are to apply then they are the appropriate investment terms where they are relevant.

C4Q8 Could the proposed capital and liquidity requirements be independently monitored practically, given there is no entity separate from the charitable investment fundraiser with a role to monitor compliance with these requirements?

UCA Funds Management already has an AFS Licence and related compliance and governance framework.

C4Q9 What changes to the operation of charitable investment fundraisers will occur if the proposed capital and liquidity requirements are implemented?

This would involve a change in our capital structure and possibly the reallocation of Property Trust reserves. This can only restrict the ability of the Uniting Church to fulfil its mission.

C4Q10 Will charitable investment fundraisers have any practical difficulties in meeting and maintaining the proposed capital and liquidity requirements? Please estimate the likely costs.

Assume that UCA Funds Management funds are restructured as managed investment schemes and assuming the Property Trust meets our capital requirement through either a guarantee or subordinated liability as a responsible entity. We would then have the ability to meet ASIC's capital requirements as a responsible entity. The costs of restructuring have been discussed in B1Q9.

Meeting the capital requirements set out in C4(a) of 8% of risk weighted assets would render our organisation uneconomic and place too great a strain on the Property Trust's reserves.

C5 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser that fundraises from retail investors (other than associated entities) be prohibited from issuing investment products that can be required to be repaid in under 31 days, or permitting holders to expect repayment in a lesser period, except following the expiry of a fixed period of at least 31 days from the time of the relevant investment.

C5Q1 Do you agree with this proposal? If not, why not?

Yes, on the basis that the same requirement is imposed on all other ASIC regulated entities and schemes.

C5Q2 What benefits do you consider will result from this proposal?

It encourages retail investors to take a longer term investment time frame.

C5Q3 What disadvantages do you consider will result from this proposal?

None, provided it also applies to all other ASIC-regulated entities and schemes.

C5Q4 Do you agree that this proposal should only apply to charitable investment fundraisers that fundraise from retail investors (other than associated entities)?

We do not agree with the associated entity distinction.

C5Q5 Would complying with this proposal require you to restructure your business in any way? If applicable, please provide details about the portion of investment funds at your organisation that relates to investment products that can be required to be repaid within 31 days.

Changes to our product offering, disclosure and administrative systems would be required. All of our funds are able to be redeemed in less than 31 days.

C5Q6 What impact will this proposal have on your business costs? How will you manage these costs?

The restructure costs would form a part of the overall restructure costs as discussed in C2Q7.

C5Q7 Are there any practical problems with the implementation of this proposal? Please give details.

It is not clear how the 31 day investment time frame would operate with the 14-day 'free look' period that applies for managed investment schemes.

It is also difficult to see the merits of the proposal in the context of unitised schemes. For example, if there is a sharemarket crash within the initial 31 day period can the investor redeem their funds?

C6 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser that fundraises from retail investors (other than associated entities) must, before issuing an investment product to a retail investor:

(a) take reasonable steps to structure and promote its product so that it is unlikely to be acquired by persons who do not understand the required disclosures; and

(b) have received a signed written statement to the effect that the investor:

(i) acknowledges the required disclosures; and

(ii) understands they may be unable to withdraw their investment when expected or get some or all of their money back.

C6Q1 Do you agree with this proposal? If not, why not?

No. It is inconsistent with the standard that applies for other ASIC-regulated entities and schemes. We would not be prepared to operate funds under this condition.

C6Q2 What benefits do you consider will result from this proposal?

See response above.

C6Q3 What disadvantages do you consider will result from this proposal?

See response above.

C6Q4 Would complying with this proposal require you to restructure your business in any way?

See response above.

C6Q5 What impact will this proposal have on your business costs?

See response above.

C6Q6 Are there any practical problems with implementation of this proposal? Please give details.

See response above.

C7 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser must not use the terms 'account', 'at-call' or 'deposit', or derivatives of these terms, in any offer document or promotional materials.

C7Q1 Do you agree with this proposal? If not, why not?

Partly. We have removed the term 'deposit' from our disclosures and replaced it with 'investment'. We are in the process of replacing 'at-call' with 'same day redemption'. However, there is no generally-accepted alternative to the term 'account' and we note that it is almost uniformly used by other ASIC regulated entities and schemes.

In general terms, we are happy to adopt the lexicon that is approved for use within the Australian funds management industry, in particular amongst managers of ethical investment funds.

C7Q2 What benefits do you consider will result from this proposal?

See response above.

C7Q3 What disadvantages do you consider will result from this proposal?

See response above.

C7Q4 What impact will this proposal have on your business costs?

See response above.

C7Q5 Are there any practical problems with implementation of this proposal? Please give details.

See response above.

C8 We propose that, in addition to the existing disclosure requirements under RG 87 concerning regulation and ASIC's role and as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser must:

(a) in all offer documents and promotional materials prepared for investment products that are issued in reliance on ASIC exemptions, incorporate clear statements to the effect that:

(i) the product is only intended to attract people whose primary purpose for making their contribution (i.e. payment to the charitable investment fundraiser) is to support the charitable purpose of the fundraiser;

(ii) the product is only intended to attract people who will not be concerned that they can lose their entire contribution without any regulatory protection applying;

(iii) the product is not comparable to investments that are issued by banks or regulated issuers; and

(iv) financial returns from making a contribution are not intended to compete with those available from investments issued by commercial providers; and

(b) ensure that all required disclosures (whether under RG 87 or this proposal) are prominently disclosed in any offer document or promotional material, and included whenever any statement is made as to returns in a communication to retail investors.

Note: The requirement in RG 87 to state that the investment is designed for investors who wish to promote the charitable purpose of the relevant charity and for whom the considerations of profit are not of primary relevance in the investment decision would be replaced by the disclosures in proposal C8(a).

C8Q1 Do you agree that charitable investment fundraisers should be required to make the disclosures in proposal C8(a) in offer documents and promotional materials? If not, why not?

No. We would not be prepared to operate funds under this condition, as the statements in C8(a) are a misrepresentation of the features, entitlements and long term track record inherent in the funds we offer.

C8Q2 Are these matters of disclosure adequate to deter potential investors whose primary motive for investment is to be assured of repayment or to seek a financial return on their investment?

See response above.

C8Q3 What benefits do you consider will result from this proposal?

See response above

C8Q4 What disadvantages do you consider will result from this proposal?

See response above

C8Q5 *What impact will this proposal have on your business costs? How will you manage these costs?*

See response above

C8Q6 *Are there any practical problems with the implementation of this proposal? Please give details.*

See response above

C9 We propose to modify the existing condition of relief relating to lodgement of financial statements. We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser must:

(a) lodge its audited financial statements and audit report within six months after the end of its financial year;

(b) if it issues interests in a managed investment scheme, lodge the scheme's audited financial statements and audit report within six months after the end of the scheme's financial year; and

(c) lodge its audited financial statements and audit reports with:

(i) the ACNC; or

(ii) ASIC if the ACNC financial reporting framework does not apply to the relevant charitable investment fundraiser or, if there is an offer of interests in a managed investment scheme, the scheme.

C9Q1 Do you agree with this proposal? If not, why not?

Yes, we see no issues with this requirement.

C9Q2 Do you believe the proposed time for lodgement of audited financial statements should be shortened? Please give reasons.

See response above.

C9Q3 What benefits do you consider will result from this proposal?

See response above

C9Q4 What disadvantages do you consider will result from this proposal?

See response above

C9Q5 Would complying with this proposal require you to restructure your business in any way?

See response above

C9Q6 What impact will this proposal have on your business costs? Please quantify and substantiate your estimate.

See response above

C9Q7 Are there any practical problems with implementation of this proposal? Please give details.

See response above

C10 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser must:

(a) continue to meet the existing requirements in RG 87 to lodge:

(i) an identification statement with ASIC; and

(ii) a supplementary or replacement identification statement when an identification statement needs correcting or updating;

(b) in addition to meeting the existing content requirements for identification statements under RG 87, set out the following:

(i) the charitable purpose of the organisation that will be disclosed to investors;

(ii) whether investment funds will be raised by issue of debentures or interests in a managed investment scheme and, if the latter, a clear identification of the scheme;

(iii) whether the charitable investment fundraiser is required to hold an AFS licence and, if so, the AFS licence number of the organisation;

(iv) whether the charitable investment fundraiser will be required to lodge audited financial statements with the ACNC and, for issuers of interests in a managed investment scheme, whether it will be required to lodge the scheme's audited financial statements with the ACNC; and

(v) the financial year of the charitable investment fundraiser and, for issuers of interests in a managed investment scheme, the financial year of the scheme; and

(c) provide information about its affairs if requested by ASIC and assist ASIC in checking on its compliance.

C10Q1 Do you agree with this proposal? If not, why not?

Yes, we see no issues with this requirement.

C10Q2 Do you believe the new content requirements for identification statements are reasonable? If not, why not?

See response above.

C10Q3 What benefits do you consider will result from this proposal?

See response above

C10Q4 What disadvantages do you consider will result from this proposal?

See response above

C10Q5 What impact will this proposal have on your business costs?

See response above

C10Q6 Are there any practical problems with implementation of this proposal? Please give details.

See response above

C11 We propose that, as a condition of relying on ASIC's exemptions under RG 87, a charitable investment fundraiser must:

(a) unless it holds an AFS licence, while there are debentures or interests on issue that were issued by the charitable investment fundraiser in reliance on the exemptions, report to ASIC in writing a significant breach, or a likely significant breach, of a condition of relief as soon as practicable and in any case within 10 business days after becoming aware of the breach or likely breach; and

(b) provide to its auditor within two months after the end of each financial year a statement signed by a director, or member of the governing body of the entity, setting out whether the person reasonably believes the charitable investment fundraiser has met its breach reporting obligation under proposal C11(a) or under s912D if it is an AFS licensee and, if not, giving particulars of the non-compliance. This applies if there were debentures or interests issued by the charitable investment fundraiser, in reliance on the exemptions, on issue at any time during the financial year.

Your feedback

C11Q1 Do you agree with this proposal? If not, why not?

Yes we see no issues with this requirement and we already have an AFS licence.

C11Q2 Do you believe the proposed time for lodgement of breach reports under proposal C11(a) should be longer? Please give reasons.

See response above.

C11Q3 What benefits do you consider will result from this proposal?

See response above.

C11Q4 What disadvantages do you consider will result from this proposal?

See response above.

C11Q5 What impact will this proposal have on your business costs?

See response above.

C11Q6 Are there any practical problems with implementation of this proposal? Please give details.

See response above.

C12 We propose that, as a condition of relying on ASIC's exemptions for charitable investment fundraisers, a charitable investment fundraiser must:

(a) lodge an audit report for each financial year, or any other period that ASIC directs, that states whether:

(i) during any part of the financial year for which there were debentures or interests on issue that were issued in reliance on the exemptions, in the auditor's opinion the entity complied with the minimum charitable investment requirement (proposal C3) and the capital and liquidity requirements (proposal C4); and

(ii) the auditor has received a director's statement addressing the matters set out in proposal C11(b) and if the auditor is aware that the statement is not true, a statement to that effect; and

(b) lodge the audit report in proposal C12(a) with ASIC by no later than:

(i) for each financial year of the charitable investment fundraiser in which there were debentures or interests on issue that were issued by the charitable investment fundraiser in reliance on the exemptions—the day the entity is required to lodge financial reports with the ACNC or ASIC; and

(ii) for any period of time that ASIC directs—the date ASIC directs the audit report to be lodged.

C12Q1 Do you agree with this proposal? If not, why not?

Yes we see no issues with this requirement.

C12Q2 What benefits do you consider will result from this proposal?

See response above.

C12Q3 What disadvantages do you consider will result from this proposal?

See response above.

C12Q4 Do you believe that, in the absence of this requirement (or an alternative external monitoring requirement), there is a significantly increased risk of non-compliance with the minimum charitable investment requirement (proposal C3) and the capital and liquidity requirements (proposal C4)?

See response above.

C12Q5 Do you think an alternative requirement for external monitoring of compliance with the minimum charitable investment requirement (proposal C3) and the capital and liquidity requirements (proposal C4) may be preferable? If so, please give details.

See response above.

C12Q6 What impact will this proposal have on your business costs?

See response above.

C12Q7 Are there any practical problems with implementation of this proposal? Please give details.

See response above.

C13 We propose that:

(a) following receipt of a breach report we will decide:

(i) whether a charitable investment fundraiser should continue to have the benefit of ASIC's relief for new fundraising; or

(ii) whether we should exercise our power to exclude the charitable investment fundraiser from the relief under the proposed terms of exemption; and

(b) if a charitable investment fundraiser becomes aware or should reasonably have become aware of a breach of condition(s) and fails to notify ASIC of the breach, its relief will lapse for new fundraising unless and until we confirm in writing that it may continue to rely on ASIC's exemptions. We may impose conditions for providing such confirmation.

C13Q1 Do you agree with this proposal? If not, why not?

Yes we see no issues with this requirement and already effectively meet this condition under our AFS licence.

C13Q2 What benefits do you consider will result from this proposal?

Improves corporate governance for the charitable fundraiser sector.

C13Q3 What disadvantages do you consider will result from this proposal?

None, provided it also applies to all other ASIC-regulated entities and schemes.

C13Q4 What impact will this proposal have on your business costs?

Minimal.

C13Q5 Are there any practical problems with implementation of this proposal? Please give details.

None.

C14 If Option 2 is adopted, we propose that, as a condition of relying on ASIC's exemptions under RG 87, a charitable investment fundraiser relying on the group charities exemption must comply with each of the conditions applying to other charitable investment fundraisers, except the requirement to individually lodge an identification statement. The sponsor would be required to maintain and make available to ASIC and any member of the public particulars about each of the charitable investment fundraisers for which it is the sponsor that includes the content that would be required in identification statements.

C14Q1 Do you agree that charities relying on the group charities exemption should be required to meet these conditions? Please give reasons.

We believe that Option 2 is unworkable and the group charities exemption does not apply for UCA Funds Management.

C14Q2 Do you think that charities relying on the group charities exemption should be required to comply with any other conditions (whether applicable to charities relying on the individual charities exemption or not)? If so, please give details.

See response above.

C14Q3 Should charitable investment fundraisers relying on the group charities exemption have to lodge an individual identification statement? If so, what benefits would arise?

See response above.

C14Q4 Would complying with this proposal require you to restructure your business in any way?

See response above.

C14Q5 If this proposal is implemented, would you respond by changing the way your organisation currently fundraises?

See response above.

C14Q6 What impact will this proposal have on your business costs?

See response above.

C14Q7 Are there any practical problems with implementation of this proposal? Please give details.

See response above.

D1 *If Option 1 (removal of exemptions) in Section B is adopted, we propose that the reforms be effective as of 28 June 2014.*

D1Q1 *If Option 1 is implemented, do you agree with the proposed timeframe for implementation?*

No. This is not enough time and this is our primary concern amongst all the proposals.

UCA Funds Management operates within the relatively complex and consultative governance structure of the Uniting Church in Australia. We are a small, low cost organisation with limited resources available for the extent of restructure required.

The clarity with which we can apply to any restructure is also affected by a confluence other regulatory uncertainties that have implications for our business model and investment stewardship. These include ASIC CP199 and CP194, APRA Banking Act exemption proposal for RCDF's and the ACNC's new requirements regarding the operation of charitable organisation's business activities.

If ASIC makes substantive changes to these exemptions, we propose a longer implementation period effective 31st December 2015. This allows more time to be involved in and then evaluate the impact of the regulatory changes noted above. We can then plan for any (fund, organisation and administration) restructure, fund capital requirements, make investment portfolio adjustments and most importantly, inform investors what these changes mean for them.

D2 *If Option 2 (retention of exemptions with additional conditions) in Section C is adopted, we propose to implement the changes in stages (see Table 2).*

D2Q1 *Do you agree with the proposed timeframe in Table 2 for implementation of the AFS licensing requirement? If not, why not?*

See response above to D1Q1.

D2Q2 *Do you agree with the proposed timeframe in Table 2 for implementation of the minimum charitable investment requirement? If not, why not?*

See response above.

D2Q3 *Do you agree with the proposed timeframe in Table 2 for implementation of the capital and liquidity requirements? If not, why not?*

See response above.

D2Q4 *Do you agree with the proposed timeframe in Table 2 for implementation of the requirement to not issue at-call or short-term investment products? If not, why not?*

See response above.

D2Q5 Do you agree with the proposed timeframe in Table 2 for implementation of the proposed investor acknowledgement requirement? If not, why not?

See response above.

D2Q6 Do you agree with the proposed timeframe in Table 2 for implementation of the requirement to not use certain terms, such as 'account', 'at-call' or 'deposit'? If not, why not?

See response above.

D2Q7 Do you agree with the proposed timeframe in Table 2 for implementation of the additional disclosure requirements? If not, why not?

See response above.

D2Q8 Do you agree with the proposed timeframe in Table 2 for implementation of the modified requirement to lodge financial statements? If not, why not?

See response above.

D2Q9 Do you agree with the proposed timeframe in Table 2 for implementation of the modified identification statement (content) requirement? If not, why not?

See response above.

D2Q10 Do you agree with the proposed timeframe in Table 2 for implementation of the breach reporting requirements? If not, why not?

See response above.

D2Q11 Do you agree with the proposed timeframe in Table 2 for implementation of the audit report requirement? If not, why not?

See response above.

D2Q12 Do you require a transition period to ensure that adequate arrangements are in place to meet the requirements of these proposals? Please provide details.

See response above.

E1 We propose to roll over relief that is currently available to schools for school enrolment deposits under [CO 02/151] without amending the terms of the relief.

E1Q1 Do you agree with this proposal? If not, why not?

Yes.

E1Q2 Do you consider that the existing terms of the relief should be amended? If so, please provide details.

No.

