



ASX

AUSTRALIAN SECURITIES EXCHANGE

Managed Funds, ETFs and Structured Products

Overview and Operational Guide for product quotations
on ASX under the AQUA Rule framework

This document provides guidance for Product Manufacturers and other Market Participants who may be considering quoting or advising in products to be traded on ASX under the AQUA Rules in chapters 10A & 10B of the ASX Market Rules

ABOUT ASX

ASX Limited (ASX) was created by the merger of the Australian Stock Exchange and SFE Corporation in July 2006.

ASX operates under the brand name Australian Securities Exchange and is one of the world's top-10 listed exchange groups measured by market capitalisation.

ASX spans the primary markets for corporate control and capital formation, and the secondary markets for capital allocation, price discovery and risk transfer. It functions as a market operator, supervisor, central counterparty clearer and payments system facilitator. It promotes good corporate governance among Australia's listed companies and helps educate retail investors.

The diverse domestic and international customer base of ASX includes issuers of a variety of listed securities (such as corporations and trusts), investment and trading banks, fund managers, hedge funds, commodity trading advisers, proprietary and retail traders, and retail investors.

More information on ASX can be found at: www.asx.com.au

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A new market service

ASX has launched a new market service to provide Managed Funds, ETFs and Structured Products with a more tailored framework for the quotation of these products on the ASX market and access to back office clearing and settlement services provided by the ASX group.

This document provides an overview of the following aspects of the new service:

- The background to the new service
- The AQUA Rules
- Trading and the Quote Display Board
- The rules around liquidity on ASX
- Quotation processes and an operational overview for Product Manufacturers
- The Fee schedules.

This document should be read along with the accompanying Technology Guide for products quoted under the AQUA Rules, the AQUA Rules themselves (chapters 10A & 10B of the ASX Market Rules) and the procedures to the Rules.

Background to the new service

Listing of products on ASX has been limited to products listed under the Equity Listing Rules or the Warrant Rules. While both of these mechanisms have served the market well in terms of the flexibility they provide, they do not meet the contemporary needs of the market in many respects.

The Equity Listing Rules continue to work well for listed companies, A-REITs, Infrastructure Funds, Listed Investment Companies and some other listed vehicles, and the Warrant Rules work well for warrants.

However this new framework is more suitable for open-ended managed funds or hedge funds. For example, ETFs, while listed under the Equity Listing Rules, are better suited to the AQUA Rules and many Structured Products have outgrown the Warrant framework.

The new service represents a tailored framework for trading and settlement of these products as described in this document.

The AQUA Rules

The AQUA Rules provide a framework for product issuers to quote a range of products on ASX including, but not limited to Managed Funds, ETFs, and Structured Products.

The AQUA Rules describe:

- Who can be an issuer of products quoted on ASX;
- What products can be quoted on ASX;
- The rules around admission of products on ASX;
- The rules around product and issuer disclosure;
- The rules around amending the terms of issue of products;
- The rules around liquidity;
- The rules for the full trading market versus the Quote Display Board;

To the extent relevant, the AQUA Rules relating to AQUA product issuers, AQUA products and the trading of AQUA products are based upon the current Section 10, which relates to warrants. Similarly, the AQUA Rules relating to the Quote Display Board are based upon the current section 26, which relates to the Wholesale Loan Securities Market. The similarities to the current Rules should assist issuers and Participants in understanding how the new framework will operate.

Products that can be quoted under the AQUA Rules

Products that can be quoted under the AQUA Rules can be described as –*third-party issued products that give investors exposure to an underlying asset or set of assets, but where the value of the assets is not under the control of the issuer.....* That is, the value of the Product is linked to the performance of the underlying assets rather than the financial performance of the issuer itself.

The underlying investments to these products must be assets in a market that is transparent, and has a robust price discovery mechanism with appropriate disclosure of factors impacting price or value.

Markets that meet this description include listed securities (or baskets of the same), published indices, commodities and currencies.

In general, there are three broad categories of Product that can be quoted in this way: Managed Fund Products, Exchange Traded Funds (ETFs), Hedge Funds and Structured Products. Hedge funds are likely to fall into the Managed Fund Product category (provided they meet the requirements for AQUA products discussed below).

The other routes for quotation on ASX - the Equity Listing Rules and the Warrants Rules, complete the spectrum of listing opportunities on ASX from traditional equities, through managed fund and ETF products, to more complex structured products and warrants.

The distinction between products that should be listed under the Equity Listing Rules and those that can be quoted under the AQUA Rules is an important one. It is important that operating companies, A-REITS and other vehicles that require the disclosure and corporate control provisions of the Equity Listing Rules continue to be listed in this way.

The products that will not be admitted under the AQUA Rule framework include (ASX Market Rule 10A.3.3):

- a security in a listed investment company;
- a unit in a trust or fund that has investment of funds in real property as its main object;
- a unit in a trust or fund that has investment of funds in infrastructure as its main object;

- a unit in a non-portfolio strategic investment vehicle;
- a financial product where the issuer has significant influence over the price or value of the underlying instruments;
- a financial product for which, in ASX's opinion, there is insufficient information available to the market on an ongoing basis regarding the price or value of the underlying instrument; or
- any other financial product specified in the Procedures as being outside the scope of the AQUA Rules.

In this regard the following products are specified in Procedure 10A.3.3:

- a financial product where the underlying instruments are shares in an unlisted company, artworks or other collectibles, wine or other assets where the price or value of the underlying instrument is not set by a transparent mechanism;
- a unit in a Managed Fund Product for which the net asset value is not disclosed at least quarterly;
- a financial product priced by reference to an index where the level of that index is not publicly available or reported on a regular basis;
- any other financial product to which ASX considers the main equity listing mechanism and continuous disclosure mechanism should apply.

Products that fall under one of the categories above may be listed under the Equity Listing Rules, provided they meet the relevant criteria.

Who can be an issuer of products quoted on ASX

The range of issuers that can quote products depends on the type of product being issued. The eligibility rules for issuers is set out in Market Rule 10A.2.1.

Banks and other large, well capitalised and regulated organisations can quote all products that meet the product definitions in the AQUA Rules and that ASX agrees to quote.

Responsible Entities of managed funds, ASX listed entities and other organisations accepted by ASX and not objected to by ASIC can issue a subset of the full range as described below in the section describing so-called issuer 'market-risk' products.

Flexibility of product quotation under AQUA

The AQUA Rules provide flexibility to manufacturers of products; they do not unnecessarily link products to particular legal definitions but rather operate within a principles based framework.

The key feature of AQUA products is that they derive their value from other shares, indices, currencies or commodities or other assets in which the market is already well informed.

Issuer 'market risk' products

As described above – only Banks and certain other large institutions can quote certain products under the AQUA Rules. ASX has defined these products as issuer 'market-risk' products, being those products that require the issuer to engage in risk management in respect of the product.

It is appropriate that ASX limits access in this way so that investors and other market participants are protected (to the extent possible) to systemic risk or the default of an under-capitalised issuer.

A typical issuer 'market-risk' product is a BHP call warrant, or a BHP instalment i.e. products that have significant optionality and the issuer

would need to hedge its exposure in both the cash and ETO markets.

A typical issuer 'non market-risk' product is an open-ended S&P/ASX 200 ETF where the issuer has raised funds to invest in S&P/ASX 200 stock.

Issuer 'market risk' products may only be issued by institutions that meet the eligibility criteria set out in the Market Rule 10A.2.1. In general terms institutions eligible to issue market risk products must:

- Be prudentially regulated by APRA
- Be a government; or
- Have an AFSL, an investment grade credit rating, and sufficient NTA; or
- Have a guarantor that meets any of the above

The Procedures attached to the AQUA Rules specify those products that ASX considers to be issuer 'market-risk' products. The products listed in the Procedures as they stood when this Document was released in June 2008 reflects the list of warrant products as at June 2008.

Product issuers should approach ASX early if there is any uncertainty as to whether a product is an issuer 'market-risk' product.

In making any decision on proposed new 'market-risk' products, ASX will consult with a panel of experts. The ASX decision on this matter will be final.

Issuer 'non market-risk' products

Issuer 'non market-risk' products may be issued by institutions that meet the eligibility criteria set out in Market Rule 10A.2.1. This rule covers all other issuers including REs of managed funds and other product manufacturers.

An issuer 'non market-risk' product is any financial product where the issuer employs investor funds in a pooled fund or other mechanism to buy/fund the underlying

instruments which are then held for the benefit of the investors on trust or by a registered managed investment scheme or similar vehicle. Issuers should consult with ASX ahead of quotation and refer to the ASX Procedures linked to chapter 10A of the ASX Market Rules.

Typical Products include Managed Funds, ETFs, most Hedge Funds, and some Structured Products.

International product quotations on ASX

The AQUA Rules provide a framework to enable international products to be quoted on ASX.

The issuer (being the entity which issues, distributes or makes available AQUA products) is required to comply with the AQUA Rules. There is scope for a local party to become the 'sponsor' or distributor of a product in Australia, or to 'white label' products for distribution on the Australian market, provided that they comply with the requirements under the AQUA Rules. Note that they also need to comply with any requirements under the Corporations Act, such as the requirement to issue a disclosure document (see below).

The rules around admission of products on ASX

An issuer may apply to quote its products on the Quote Display Board or the regular trading market. The AQUA Rules set out the specific requirements that an issuer has to meet to quote on either market. The issuer will need to complete the application form and indicate what market it wishes to quote its product on.

The rules around product disclosure of products quoted on ASX

Issuers (or in the case of a sponsored product, the sponsor) are required to produce a disclosure document that complies with the Corporations Act (or evidence of an exemption from the disclosure requirements under the Corporations Act). A disclosure document sets out information for investors to assess the

risks, rights and obligations associated with the product and the issuer's capacity to fulfil its obligations.

The AQUA Rules impose an obligation on managed funds, hedge funds and ETF securities to disclose information about the NTA or the NAV of their fund in accordance with the terms of issue or trust deed of the fund. A managed fund product must disclose NAV at least quarterly or else it cannot be quoted under the AQUA Rules.

NAV can be reported on the issuer's website provided the PDS says this is where investors can find the latest NAV.

Managed funds must also disclose information about net monthly redemptions to give investors a sense of investor interest in terms of whether the fund is growing or shrinking. This information must be disclosed on the funds website on a monthly basis. The PDS must indicate where the information can be found.

All funds must also disclose information about dividends, distributions and other disbursements. This information must be disclosed to ASX via the Company Announcements Platform (see the section on making announcements to ASX via CAP). For funds quoted on the trading market, information about dividend payments must be disclosed to ASX in accordance with the regular equity dividend timetable.

Any other information that is required to be disclosed to ASIC under section 675 of the Corporations Act must be disclosed to ASX via the Company Announcements Platform at the same time it is disclosed to ASIC.

The Trading Market and the Quote Display Board

The new service provides issuers with a choice in trading environment between a regular trading market and a non-trading market called the Quote Display Board.

The trading market provides the regular ASX trading environment for products to enable the issuer to access on-market trade execution and broker distribution. In ITS the trading market is the Funds, Warrants & Structured Products market. This is the ITS section that previously only contained warrants. It has been renamed for AQUA and from early May it has contained all ETF products.

In operational terms, this section will operate in exactly the same way it does today with continuous matching of bids and offers and an opening and closing auction. Broker-IDs are disclosed.

The technical overview document provides more detail on ITS and other system aspects of this new service.

The Quote Display Board (QDB) is available for products where the issuer does not require on-market trade execution but would like to post indicative prices and route off-market trades to CHESS for settlement purposes.

Many managed fund products are forward priced for primary market applications and redemptions, which means they could not be made available for 'trading' in a live secondary market. In this case issuers can quote products on the QDB and post indicative application and redemption prices on the QDB. Only the issuer can post and amend its prices and these prices cannot be traded against in the system – being just indicative prices. Any off-market transactions can be routed to CHESS by the participants on both sides of the transaction. The technical overview document describes how this reporting is achieved via a new condition code 'QB'.

Issuers may also decide to quote very illiquid products on the QDB, or products in which they do not wish to make markets.

To use the QDB, the product issuer must establish a relationship with (or own) an ASX Market Participant to gain access to the Quote Display Board on ITS and settlement facilities on CHESS. In future, ASX may give limited ITS access to issuers to access their own products on the QDB. This development would occur in 2009 or beyond.

The rules around liquidity of products quoted on ASX

The AQUA Rules for the trading market are intended to promote a liquid market in which investors can buy and sell products. This is achieved either through a spread of holders providing natural liquidity or through market makers providing liquidity.

Issuers are given a choice when it comes to the liquidity rules as outlined in Rule 10A.3.5. This rule outlines three options available to achieve liquidity:

1. Through a spread of at least 1,000 product holders and a net asset value of at least \$10m.
2. Through market making (in accordance with requirements similar to those outlined in ASX Market Rules Guidance Note 17: "Spread of Warrant Holders and Warrant Market Making".)
3. Or through the negotiation of a bespoke market making agreement with ASX.

Spread of holders rule

If the issuer chooses the minimum of 1,000 investors with a minimum fund size of \$10m NTA then this requirement must be met to ASX satisfaction (evidence: registry proof of holdings) – before the first day of trading.

Market making/reasonable bid obligation

There are two choices of market making – agree to undertake the regime already in place for warrants (the ‘reasonable bid’ obligation) or a bespoke agreement.

The reasonable bid obligation is achieved by ensuring that on each trading day an issuer must maintain at least one reasonable bid in respect of each product series for 90% of the time from 10:15am to 4:00pm.

For more information regarding market making by the reasonable bid obligations please refer to:

ASX Market Rules Guidance Note 17: “Spread of Warrant Holders and Warrant Market Making”

Negotiation of a bespoke market making agreement

ASX may consider on a case by case basis a bespoke market making arrangement.

This is an example of a bespoke Market Maker terms with maximum spread and minimum quantity for Rule 10A.3.5(c)

| BID PRICE IN \$AUD FOR SHARES | MAXIMUM SPREAD | MINIMUM QUANTITY (SHARES) |
|-------------------------------|----------------|---------------------------|
| \$50< | 10c | 500 |
| >=\$50-\$75 | 30c | 100 |
| >=\$75-\$100 | 35c | 75 |
| >=\$100-\$125 | 40c | 50 |
| >=\$125-\$150 | 45c | 50 |
| >=\$150 | 50c | 50 |

There is no minimum fund size if an issuer chooses either market making route.

Quote Display Board

There is no initial spread or market making requirements, or minimum fund size for products admitted to the Quote Display Board.

Quotation process and operational overview for product issuers

This section outlines how a product is quoted on ASX under the AQUA Rules. It is a guide for product manufacturers on how to quote products and what documents are required. It covers timeframes, fees, contact details, etc.

The quotation process happens in two stages – the approval of the issuer (in accordance with the issuer Rules in chapter 10A), and the approval of the product (in accordance with the Product Rules in chapters 10A & 10B). The approval of the issuer only happens once - for the first product to be quoted by that issuer, whereas product approval is a separate step each time a product is quoted on ASX.

Approval of the product issuer

The product issuer or manufacturer will nominate an entity that will issue the product to be quoted on ASX. For a sponsored product, an entity that will be the party that will comply with the Rules. That entity will apply to ASX to be an Approved issuer under chapter 10A of the ASX Market Rules by completing an application form (attached as an Appendix to the Procedures) and providing the relevant supporting documentation to demonstrate that it meets the eligibility criteria as set out in the Rules.

Admission of the product

Under the Corporations Act an issuer (or the Sponsor) is required to prepare a Prospectus or a Product Disclosure Document (PDS) in respect of products issued in Australia. There are exemptions for certain issues to certain parties but given most products quoted on ASX are for retail investors, a PDS or prospectus is likely to be required.

Applications should include the following:

- Draft Product Disclosure Statement (PDS) or Prospectus
- Ensure the 'Terms of Issue' include provisions for adjustments in line with the Rules (only for Structured products)
- Trust Deed when the underlying securities are held in trust
- Provide a legal opinion which addresses what type of legal instruments the products are under the Corporations Act (e.g. securities, managed investment products, derivative) and what is the 'Underlying Instrument' for the purposes of Market Rule 10A.2.
- Confirmation of adequate facilities, expertise, procedures, personnel and financial resources (Market Rule 10A.2.1)
- Guarantee where applicable
- Confirmation of market making arrangements or spread of holders

See the Application Form in Appendix 10A.3.3 to the Procedures for full details.

Indicative timetable

Depending on the complexity of the proposed new issue, the turnaround time for applications between application submission and quotation will be anywhere between 3 weeks and approximately 3 months. Any subsequent rework required by the applicant can extend this timetable further.

Please refer to the timetable as an indication of the quotation procedure and indicative timeframes.

| TASK | BUSINESS DAYS |
|---|--------------------------|
| 1. Give ASX draft documents and complete non-standard application template | 1 |
| 2. Discuss any issues from draft documents and application | 1-10 |
| 3. Give ASX final documents and executed application | 3 |
| 4. ASX prepare referral paper for ASX Market Supervision meeting to consider issuer application | 5-15 |
| 5. ASX meeting to consider the application for quotation | 1 (10 days lead time) |
| 6. Finalise ASX decision and send to issuer | 2 |

The timeframe assumes ASX is dealing with a new product that has not been dealt with before.

Once ASX is comfortable with a product type, any subsequent series of the same product will usually be approved within 1 week turnaround.

Product codes for quotation

Issuers are advised to speak to ASX early in the initial stages of enquiry to determine code preferences and availability of codes.

Depending on the product and type and availability of codes, products can be quoted with a minimum 3 character code up to a maximum 6 character code.

All structured products will be issued with a 6 character ASX code as per the existing warrant market coding convention as summarised below:

- The first three letters of the code identify the underlying instrument. For most structured products this will be the same as the three letter ASX code of the underlying company shares.

- The fourth letter of the code identifies the type of structured product.
- The fifth letter of the code identifies the issuer.
- The sixth letter of the code identifies the particular series.

It is recommended by ASX that ETFs are issued with a 3 character ASX code to enable derivatives to be quoted over them. Managed fund type products will have a choice of up to 6 characters.

Making announcements to ASX via the Company Announcements Platform

The ASX Company Announcements Platform (CAP) enables announcements to be electronically lodged in PDF format on the ASX's secure intranet site ASX Online.

All announcements given to the Company Announcements Office are protected by encryption. Issuers will be provided with a username, password and PIN.

ASX Listing Rules Guidance Note 14: "Company Announcements Platform" - provides further details about the operations of the company announcements platform.

ASX Listing Rules Guidance Note 20: "ASX Online" - provides further details about the operations of ASX Online.

Timetable and lodgement location for Announcements

| DISCLOSURE REQUIREMENTS FOR PRODUCTS | TIMETABLE | REPORT ON |
|---|---|---------------------|
| NAV (if relevant) | Daily – Managed funds on Trading Market Quarterly – Managed funds on Quote Display Board All other products as per issuer PDS | Issuer Website, etc |
| Redemptions | Reported monthly the week after the end of the month | Issuer Website, etc |
| Distributions and other payments - Trading Market - Quote Display Board | As per Listing Rules for Listed Company Dividends (LR App 6A) No timetable required by ASX | CAP CAP |
| Any other information required to be disclosed under the Corporations Act | Reported at the same time it is disclosed to ASIC | CAP |

Fee structure for product issuers

The fees payable by the issuer to ASX in respect of product issues are set out below.

Structured products

Structured products quoted on the Trading Market

- Initial fees: \$15k per new issuer (one off payment), \$1k per product
- Turnover fee: 10 bps of value traded capped at \$10k p.a. (7.5bps if the product is <1 year to expiry)

This is the warrant fees structure

Structured products quoted on the Quote Display Board

- Initial fees: \$15k per new issuer (one off payment), \$500 per product capped at 100 products per type (i.e., a program fee of \$50k)
- Annual fees: \$500 per product capped at 100 products per type

Product issuers should consult with ASX prior to quoting a series of products on the Quote Display Board to determine if the product issue is part of a 'Program'.

A 'Program' is the issue of a series of products where:

- The key features and benefits of each product in the series are identical

- The rights and obligations of each product in the series are identical
- Each product only differs from other products in the program in respect of the underlying share, basket of shares, index or other reference asset
- Each product in a program is issued either at the same time or within 6 months of the first product issued in the program (issues following this will constitute a new program)

Managed Funds

Funds quoted on the Quote Display Board

- Initial fees: \$15k per new issuer (one off payment), \$2k per fund
- Annual fees:
 - Up to \$50m FUM - \$2,000 per fund p.a.
 - \$50m to \$100m - \$4,000 per fund p.a.
 - \$100m to \$200m - \$6,000 per fund p.a.
 - \$200m to \$500m - \$8,000 per fund p.a.
 - \$500m+ - \$10,000 per fund p.a.

Funds quoted on the Trading Market

The fees payable by the issuer to ASX in respect of a Fund are set out in the schedule below.

- Initial fees: \$15k per new issuer (one off payment), \$2k per new fund
- Annual fees: basis points fee based on number of funds and FUM (see tables below)

Table 1. Schedule for 1-4 Funds (per fund)

| FUNDS UNDER MANAGEMENT | ANNUAL QUOTATION FEE |
|------------------------|---|
| Up to \$100m | 3.5 bps of FUM under \$100m |
| \$100m to \$500m | \$35,000 + 2.5 bps of FUM over \$100m |
| \$500m to \$1,000m | \$135,000 + 2.0 bps of FUM over \$500m |
| \$1,000m to \$2,000m | \$235,000 + 1.5 bps of FUM over \$1,000m |
| Over \$2,000m | \$385,000 + 0.75 bps of FUM over \$2,000m |

Table 2. Schedule for 5-9 Funds (FUM aggregated)

| FUNDS UNDER MANAGEMENT | ANNUAL QUOTATION FEE |
|------------------------|---|
| Up to \$500m | 2.0 bps of FUM under \$500m |
| \$500m to \$1,000m | \$100,000 + 1.5 bps of FUM over \$500m |
| \$1,000m to \$2,000m | \$175,000 + 1.25 bps of FUM over \$1,000m |
| \$2,000m to \$5,000m | \$300,000 + 0.75 bps of FUM over \$2,000m |
| Over \$5,000m | \$525,000 + 0.25 bps of FUM over \$5,000m |

Table 3. Schedule for 10+ Funds (FUM aggregated)

| FUNDS UNDER MANAGEMENT | ANNUAL QUOTATION FEE |
|------------------------|--|
| Up to \$1,000m | 1.5 bps of FUM under \$1,000m |
| \$1,000m to \$2,000m | \$150,000 + 1.0 bps of FUM over \$1,000m |
| \$2,000m to \$5,000m | \$250,000 + 0.5 bps of FUM over \$2,000m |
| \$5,000m to \$10,000m | \$400,000 + 0.25 bps of FUM over \$5,000m |
| Over \$10,000m | \$525,000 + 0.10 bps of FUM over \$10,000m |

ASX will use market value as a proxy for funds under management (FUM) (number of units x market price) where appropriate.

The FUM or Market Value in question is the amount of the fund quoted on ASX. This number will be derived by ASX.

For example a previously unlisted fund may have FUM of \$500m when it applies to list on ASX. The ASX FUM/market value may actually start at \$Nil and will grow as trades occur on ASX.

Issuers must report the total number of units on issue in the fund including CHESS and issuer sponsored sub registers that was quoted on the ASX trading system to ASX quarterly.

The next step

ASX recommend that issuers talk to ASX at an early stage regarding quotation. ASX is happy to discuss matters on a strictly confidential basis and review draft documentation to help ensure a smooth passage for any proposal.

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