



Public Consultation

Consultation on the future of the ASX Managed Fund Settlement Service

July 2023

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1. Introduction

1.1 Background

ASX Limited and ASX Settlement Pty Limited (together **ASX**) are consulting regarding a proposed wind down and closure of the ASX Managed Fund Settlement Service (**mFund**).

mFund was launched nine years ago in order to provide a faster and more efficient method for investors and financial advisers to transact in unlisted managed funds.

As at 31st May 2023, mFund has only attracted \$1.6bn in funds under management (**FUM**) across 228 funds¹ since its launch.

ASX has observed an increasing issuer and investor preference for exchange traded products (**ETPs**) and there has been significant growth in the ETP market via ASX, which has \$143bn of FUM across 297 funds as at 31st May 2023.

ASX also notes the expansion of active ETPs in the Australian market as well as the strong growth of ETPs overseas. Consequently, ASX expects to see a continued trend of increasing preference for ETPs among Australian investors and product issuers. For example, in FY22 and FY23 to date, there has been a net increase of 74 ETPs admitted to ASX versus a net decrease of 12 mFund products.

ASX recognises that mFund products are primarily targeted at retail investors and their financial advisers. As such, ASX also wants to ensure that if a decision is made to close mFund then the wind down of the service is supported by a clear and consistent framework that reduces the impact to investors and their advisers. Therefore, ASX is also seeking feedback from stakeholders on considerations that need to be taken into account if a decision is made to wind down and close the service.

1.2 ASX's consultation approach

ASX notified customers and other stakeholders of its intention to consult on the future of mFund in a media release on 12 April 2023² ("**April MR**"). This consultation paper seeks stakeholder feedback in two key areas:

- Industry preferences for dealing in managed funds via ASX (see section 2); and
- A proposed process for winding down and closing mFund, if appropriate (see section 3).

Further detail regarding each area is set out below.

In section 2 of this paper, ASX seeks industry feedback regarding preferences for dealing in managed funds via ASX. Since mFund's launch, the managed fund industry has witnessed rapid product, technology, and regulatory changes and increased online capabilities offered by various managed fund providers. ASX has observed that there is a trend towards the increasing popularity of ETPs as building blocks for portfolios, both in Australia and overseas.

More detail on ASX's observations in these areas is provided in section 2 and we would like to seek industry feedback as to how these factors are impacting businesses and investment choices.

Section 3 of this paper seeks feedback from mFund stakeholders regarding the appropriateness and potential impacts of a proposed framework and process to wind-down the mFund service.

¹ Source: ASX Investment Products Report May 2023 - <https://www2.asx.com.au/issuers/investment-products/asx-funds-statistics>

² The media release can be viewed on the ASX website here: <https://www2.asx.com.au/about/media-centre>

As noted above and in the mFund consultation media release, no final decision to wind-down and close mFund has yet been made. mFund will remain open and operational throughout this consultation process. For the avoidance of doubt, the feedback sought in section 3 does not seek to pre-empt stakeholder feedback and relates to just one possible outcome of this consultation.

In addition to the specific questions asked in sections 2 and 3, ASX also welcomes any other submissions or feedback around mFund and the broader ASX offering in fund products.

1.3 Stakeholder feedback sought and relationship with other consultations

ASX welcomes feedback to this consultation paper from all interested stakeholders including:

- participants of mFund, such as Trading Participants, Settlement Participants and Product Issuer Settlement Participants
- mFund product issuers and investment managers
- retail and wholesale investors
- financial advisers
- other relevant service providers such as registries and custodians
- industry bodies representing the groups above, and
- professional advisers to the groups above.

ASX is presently engaged in other, separate consultation processes that relate to AQUA Products and mFund. See ASX's separate consultation communications regarding:

- ASX's consultation paper "*Enhancing the ASX Investment Products Offering*"³ dated 26 April 2022 (the "**Enhanced Offering CP**"), with ASX's related response to consultation to be released subsequent to this consultation paper; and
- ASX's Consultation Paper "*Rule Amendments: AQUA Product naming conventions*"⁴ dated 7 June 2023.

ASX will engage with the feedback provided in relation to other consultations as set out in their respective consultation materials.

To illustrate, ASX sought feedback regarding potential enhancements to ASX's Investment Product offerings, including mFund, in April 2022 as part of the Enhanced Offering CP process. To the extent that responses to the Enhanced Offering CP addressed ASX questions in relation to mFund, those responses will be summarised in ASX's response to the Enhanced Offering CP and do not form part of this consultation paper.

Since the release of the Enhanced Offering CP, ASX has continued to assess the value that the mFund service offers customers, including issuer and investor preferences for transacting in managed funds. Having regard to the factors noted in sections 1.1 and 2.1 of this paper and in the April MR, this consultation paper seeks to achieve a clearer understanding of:

- the future value of mFund and role it plays in the overall business strategy and decisions of stakeholders, noting the availability of alternative distribution channels and product structures, such as ETPs, LITs and LICs; and
- the possible impacts if mFund were to be wound down.

³ See: <https://www2.asx.com.au/content/dam/asx/about/regulations/public-consultations/2022/investment-products-phase-1-consultation-paper-final.pdf>

⁴ See: <https://www2.asx.com.au/content/dam/asx/about/regulations/public-consultations/2023/consultation-paper-aqua-rule-amendments-info-230-naming-conventions.pdf>

1.4 Due date for responses to this consultation paper

Stakeholders interested in making a submission in this consultation are asked to do so in writing by the close of business on **18th August 2023** by:

- email to:
mfund@asx.com.au
- mail to:
ASX Limited
PO Box H224
Australia Square
SYDNEY NSW 1215
Attention: Andrew Campion

ASX would prefer to receive submissions in electronic form.

Submissions not marked as 'confidential' will be made publicly available on the ASX website.

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly in your submission.

1.5 Timetable for the consultation response

After considering the submissions it receives in response to this consultation paper, ASX will prepare a consultation response summarising feedback received from respondents and ASX's determinations as a result of this consultation.

The consultation response is likely to be issued in late calendar year 2023.

2. Feedback on industry preferences for transacting in managed funds with ASX

2.1 Background

mFund was launched on 8 May 2014 with 70 Foundation Members including fund managers, unit registries and ASX brokers.

The service was launched to provide a convenient method for investors to access unlisted managed funds. At the same time, the service was intended to broaden fund managers' distribution networks, offer brokers a greater choice of products, reduce costs for industry, and make processes more efficient for transacting in managed funds⁵.

Since its launch, mFund has attracted \$1.6bn in FUM across 228 funds⁶. The service currently has 71 investment managers, 32 product issuers, 9 Product Issuer Settlement Participants, 6 Settlement Participants and 6 Trading Participants. There are currently over 10,000 unique HINs holding on average 2.7 mFund products per HIN.

ASX understands that one key impediment to the growth of mFund has been the lack of new Settlement Participants connecting to the service. Some key participants did not sign up at launch and the subsequent announcement by ASX on 12 February 2015⁷ that it would replace or upgrade all of its main trading and post trade platforms, including CHESS, further contributed to this. New Settlement Participants and their vendors were reluctant to build mFund functionality as the work would likely be impacted by the CHESS replacement project.

In addition to the challenges to connect new Settlement Participants, ASX has also observed the following industry trends that appear to have impacted the utility originally anticipated for a managed fund settlement service for the Australian market:

- increased adoption of ETPs by Australian retail investors and their financial advisers⁸
- the ability to admit actively managed non-transparent ETPs in the Australian market
- declining net inflows into unlisted managed funds relative to ETPs in Australia⁹
- entrance of managed fund transaction services to the Australian market such as Calastone and Clearstream
- introduction of the 'dual-access' ETP structure that requires an mFund product to be removed if the issuer wants to offer an ETP version of the fund
- the ability for investors to access managed funds electronically via fund manager websites in-house technology or the issuer's registry partner
- different regulatory treatments of unlisted funds versus ETPs in the area of Design & Distribution Obligations (**DDO**).

Despite the impacts above, a number of factors suggest that mFund should continue to be supported:

- there are relatively low barriers to entry for managers to have an unlisted managed fund product admitted to ASX and accessed by investors via mFund versus the process involved in establishing and operating an ETP

⁵ ASX media release 8 May 2014, "ASX launches new managed funds settlement service"

⁶ As at 31 May 2023

⁷ ASX media release 12 February 2015, "ASX Ltd technology upgrade"

⁸ The market cap of ETPs quoted on ASX has increased from \$9.9bn in January 2014 to \$143bn as at 31st May 2023

⁹ With the exception of 2021, ETPs have received higher flows than unlisted managed funds in four of the last five years. Source: [Stockhead](#)

- the structure provides greater operational flexibility at a fund level when compared to other structures, such as ETPs, in elements such as a wider range of acceptable underlying instruments and more targeted disclosure requirements
- the structure enables a wide variety of different underlying asset classes, securities and investment strategies to be implemented within the structure. This is in contrast to ETPs which are subject to more restrictive underlying asset rules.

At the date of this paper, when balancing the factors above, it appears to ASX that there is a strong argument in favour of winding down and closing mFund.

2.2 Threshold questions about mFund

ASX is seeking input from stakeholders to better understand the future value that a managed fund settlement service can provide to the Australian market and to ensure all relevant considerations are taken into account for the purposes of determining whether or not ASX should wind down and close mFund.

Questions for mFund Issuers (Fund Managers/Registries)

Question 2.2.1: How significant is the role that mFund plays in your distribution and product design and manufacturing strategies?

Question 2.2.2: Does the increasing popularity of ETPs impact the mFund service's ability to make a meaningful impact on your distribution strategy, resourcing and capabilities?

Question 2.2.3: Are there operational advantages or challenges in servicing mFund in comparison to other fund structures such as ETPs, Listed Investment Companies and Trusts (LIC/LITs), or other methods for accessing unlisted managed funds?

Question 2.2.4: Are you aware of, or do you anticipate, any legal, regulatory, technological or other market trends or changes which could impact the attractiveness of ETPs as opposed to mFund/unlisted managed funds?

Question 2.2.5: Prior to the announcement of this consultation, did you have a significant pipeline of products that would be applying for admission to mFund?

Question 2.2.6: Prior to the announcement of this consultation, did you expect your usage of the mFund service would increase, decrease or remain static over the short to medium term?

Question 2.2.7: What considerations do you take into account when deciding whether or not to offer interests in eligible managed funds via mFund? Did any specific factors significantly influence a decision not to use the mFund service?

Questions for mFund Brokers (Trading/Settlement Participants)

Question 2.2.8: What have been the strategic drivers in offering mFund products given the overall take-up of the service amongst ASX brokers has been low?

Question 2.2.9: Are there other alternatives ASX should consider for how we can leverage our infrastructure to support transactions in unlisted managed funds?

Question 2.2.10: Is ASX's understanding of the key impediments to participant adoption of mFund (as described in section 2.1 above) consistent with your experience?

Question 2.2.11: How significant is the role that mFund plays in your business and client portfolios?

Question 2.2.12: Does mFund offer any unique advantages over other distribution channels that are valuable to you or your clients?

Question 2.2.13: What (if any) considerations would you like to bring to ASX's attention regarding operational or procedural matters that need to be addressed?

Question 2.2.14: Do you believe that your clients see any particular value or advantages associated with transacting via the mFund service?

Question 2.2.15: Do your clients have any particular concerns or complaints about the mFund services as it currently operates?

Question 2.2.16: Do you believe your clients are aware of the mFund service and its features?

Questions for mFund Holders (Investors/Advisers)

Question 2.2.17: How prominent a role does mFund play in how you construct portfolios?

Question 2.2.18: Are there operational advantages or challenges with using mFund in portfolio construction in comparison to other fund structures such as ETPs, LIC/LITs and other methods of accessing unlisted managed funds?

Question 2.2.19: Do your clients have any particular concerns or complaints about the mFund services as it currently operates?

Question 2.2.20: Are your clients aware of the mFund service and its features?

Question 2.2.21: Is the distinction between the ETP Market and the mFund service well understood?

Question 2.2.22: Would you be more likely to use the mFund service if a wider range of products were available via mFund, or would you prefer to transact in fund products using ETPs?

Question 2.2.23: Do you believe that the mFund service materially supports retail clients' needs by providing access to a wider range of products via ASX's settlement infrastructure?

Questions for all mFund Stakeholders

Question 2.2.24: What is your view on the mFund service and whether ASX should continue to offer it?

Question 2.2.25: Is ASX's observation that various industry trends have impacted the original utility for a managed fund settlement service for the Australian market consistent with your experience?

3. Feedback on the implications of closing mFund

3.1 Background

As mentioned in section 2.1 above, there are currently more than 10,000 HINs with an mFund holding. Each of those HINs holds on average 2.7 mFund products¹⁰. We are also aware that over 70% of mFund investors have accessed the service via financial advisers.

Subject to this consultation process, if a decision were made to close mFund, ASX would seek to coordinate a transparent, orderly, clear and consistent wind-down process to minimise adverse impacts on issuers, investors and participants. With this in mind, ASX has developed an indicative four-stage wind-down process, some high-level milestones and estimated timeframes – refer to Table 1 below:

Table 1: Proposed Three Stage Process for mFund Wind Down and Closure

Stage	Description	Estimated Timeframe	Potential Milestones (non-exhaustive)
1 - Initial Wind Down	Limit expansion of the mFund service	1-3 months	<ul style="list-style-type: none"> Content released on ASX website to assist impacted parties e.g., FAQs, contact details of brokers, registries, fund managers, etc. Suspension of new mFund admissions. Co-ordinating a pause on applications for mFunds with nil balances. Suspension of certain ASX fees relating to mFund in the areas of broker/PISP transaction fees and issuer Annual FUM fees¹¹
2 - Removal of Funds	Liaising with mFund issuers and brokers to convert mFund holdings to direct ownership and remove funds from service.	12 months	<ul style="list-style-type: none"> Co-ordinating cessation of new applications to existing mFunds with issuers. Redemptions remain open until fund is removed from mFund. Engagement with product issuers to minimise disruption, e.g., synchronising mFund removal to rolling of PDS documents. Conversion of fund holdings from broker sponsored to issuer sponsored via CHES. Removal of mFunds with nil balances. Resignation of Product Issuer Settlement Participants (PISPs) with no underlying mFunds.

¹⁰ Source: CHES

¹¹ See mFund Schedule of Fees available at <https://asxonline.com/content/dam/asxonline/public/documents/schedule-of-fees/mfund-schedule-of-fees.pdf>. Specifically, it is proposed that the following fee codes will be waived: Issuer Fees - 04900417 (Annual FUM Fees); Broker Participant Fees – 04900406 (Fund Redemption Request), 04900418 (mFund Sub Register Conversion); Product Issuer Settlement Participant (PISP) Fees – 04900405 (Fund Redemption Response), 04900419 (mFund Sub Register Conversion)

3 - Final Closure	Final stages of legal and operational work to close the mFund service permanently.	1-3 months	<ul style="list-style-type: none"> • Removal of references to mFund from ASX website and other relevant sources. • Removal of remaining mFunds. • Resignation of remaining PISPs
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For completeness, ASX would also review current rulebooks and regulatory instruments to identify any necessary amendments to support any ultimate wind-down process and remove all references to the mFund service with effect on the service close date.

3.2 Impact to mFund stakeholders if ASX were to close the service

ASX is seeking feedback from stakeholders on considerations that need to be taken into account if a decision is made to wind down and close the service.

ASX has considered the key impacts that a decision to wind down and close mFund may have on mFund issuers, brokers and investors – these are briefly summarised below.

Questions for mFund Issuers (Fund Managers/Registries)

In terms of mFund issuers and the registries that support them, ASX expects that potential impacts could include:

- If the fund operator issues an mFund specific unit class, this class may need to be terminated or varied. Depending on the circumstances of a particular fund, this may require compulsory unit redemptions, the restructure or reallocation of fund vehicles or unit holdings and/or amendments to key fund terms (including relating to fees and costs).
- AML/KYC forms may need to be completed in respect of converted unit holdings.
- Investors may need to complete questionnaires to help issuers and product distributors comply with relevant product design and distribution obligations.

Question 3.2.1: What impact do you foresee on your business from the closure of mFund?

Question 3.2.2: What amount of time do you believe is appropriate for the wind down and closure of the mFund service?

Question 3.2.3: Does Table 1 cover the key milestones that you believe are required to minimise disruption to your business? If not, what else needs to be added?

Question 3.2.4: What (if any) considerations would you like to bring to ASX's attention regarding specific matters that need to be addressed as part of an orderly wind down process (such as unit conversions, income distributions, investor costs, AML/CTF processes, trustee duties, amendments to fund terms, tax implications, coordination in relation to cessation of application processing)?

Question 3.2.5: Would the closure of mFund necessarily result in the termination and wind-up of a significant number of existing funds?

Question 3.2.6: Would the closure of mFund require significant effort and resources to restructure funds to avoid the termination and wind up of funds admitted to the service?

Question 3.2.7: Would you be willing to engage with ASX to have products removed from mFund before its closure?

Questions for mFund Brokers (Trading/Settlement Participants)

For the ASX brokers that offer mFund to their customers (ASX Trading and/or Settlement Participants), their businesses may be impacted as follows:

- Some clients may prefer to move their portfolios to wealth management platforms that provide a broader set of products compared to HIN-based offerings from ASX brokers.
- Operational administration pressures from increased demand for redemptions or conversions of broker sponsored mFund holdings within a potentially short span of time.

Question 3.2.8: What impact do you foresee on your business from the closure of mFund?

Question 3.2.9: Are there ways in which ASX can wind down the service that will reduce the impact on participants? If so, what are your recommendations for steps ASX could take to conduct an orderly wind down of the service, including the length of time required before it is closed?

Question 3.2.10: How significant would the impact of the closure of mFund be on your business and clients?

Question 3.2.11: Are there any key or specific milestones or decision points for which you would need advance notice as part of an orderly wind down of mFund?

Question 3.2.12: Does Table 1 cover the key milestones that you believe are required to minimise disruption to your business? If not, what are your recommendations for steps ASX should take to conduct an orderly wind down of the service, including the length of time required before it is closed?

Questions for mFund Holders (Investors/Advisers)

From the perspective of investors and advisers that use mFund in their portfolios, ASX understands that there are a number of ways these individuals may be impacted through the closure of the service, for example:

- Investors wishing to hold their units after the closure will need to convert from holding the units as CHESS-sponsored units to holding their units directly with the issuer.
- If an investor does not wish to continue holding units in the fund after the closure of mFund, they will need to redeem out of the fund.
- Investors may face temporary administrative burdens to migrate holdings off their HINs as issuers and brokers complete applicable KYC and other holding related tasks.

Question 3.2.13: Are there additional ways investors may be adversely impacted by the closure of mFund that have not been identified in section 3.2 of this paper? If so, what are they?

Question 3.2.14: Are there ways in which ASX can wind down the service to reduce the impact on investors? If so, what are your recommendations for how ASX could conduct an orderly wind down of the service?

Question 3.2.15: Would the closure of mFund significantly adversely affect your ability to design and manage your investment portfolio?

Question 3.2.16: Do you believe that there are sufficient, appropriate alternative channels through which you may obtain exposure to unlisted managed funds?

Questions for Other Stakeholders

Question 3.2.17: What observations do you have about the proposed mFund closure?

Question 3.2.18: What do you think is an appropriate wind-down period for the mFund service?