Response to consultation on the future of the ASX Managed Fund Settlement Service

November 2023

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1. Introduction

1.1 Background

ASX Limited and ASX Settlement Pty Limited (together **ASX**) issued an open invitation to all industry stakeholders to respond to a consultation paper, 'Consultation on the future of the ASX Managed Fund Settlement Service'[1] (**the Consultation Paper**) on 6 July 2023. Respondents were asked to make their submissions to ASX by 18 August 2023.

The Consultation Paper sought stakeholder feedback in two key areas:

- Industry preferences for dealing in managed funds via ASX; and
- If appropriate, a proposed process for winding down and closing mFund.

This paper summarises the feedback received in response to the Consultation Paper and outlines the reasons for ASX's decision to wind down and close the mFund service.

1.2 Consultation feedback

ASX would like to thank the stakeholders that provided written feedback.

ASX received 18 written responses from stakeholders including responsible entities/product issuers (11), Trading/Settlement Participants (4), a Product Issuer Settlement Participant/Unit Registry (1), and industry associations (2).

Sixteen responses were provided on a confidential basis. Submissions from the Financial Services Council[2] (**FSC**) and the Australian Custodial Services Association[3] (**ACSA**) were provided on a non-confidential basis.

1.3 Executive summary

ASX thanks each of the stakeholders who took the time to respond to the Consultation Paper.

ASX has decided to wind down and close mFund

The feedback and submissions received in response to the Consultation Paper have helped inform ASX's assessment of the future value that mFund can provide to the Australian market. Based on this assessment, ASX has decided to wind down and close the mFund service with a target removal date for funds by 31 May 2026, a period of approximately two years and six months. Further detail regarding the matters taken into account by ASX is set out in sections 2.3 and 3.3 below.

ASX has previously observed that the market environment and investor preferences for unlisted[4] managed funds have changed since mFund was launched.[5] Based on stakeholder feedback received in response to the Consultation Paper, and ASX's own analysis, ASX has reached the conclusion that mFund is unlikely to become a material offering in the Australian funds management market. The following key factors have informed ASX's decision to close the mFund service:

1. The majority of respondents confirmed that mFund was not a material part of their existing business or central to their distribution strategy going forward.

[1] https://www.asx.com.au/content/dam/asx/about/regulations/public-consultations/2023/asx-managed-fund-settlement-service-consultation-paper.pdf
[2] https://www.asx.com.au/about/regulation/public-consultations
[3] https://www.asx.com.au/about/regulation/public-consultations
[4] For the avoidance of doubt, the term "unlisted" is used in this paper to describe fund vehicles that have not had their units admitted to Trading Status in accordance with the AQUA Rules.
[5] See Section 2.1 of the Consultation Paper

2. Self-directed and advised investors are unlikely to adopt mFund at scale or to the same extent that they adopt exchange traded products (**ETP**s).

3. Recently introduced Design & Distribution Obligations (**DDO**) have impacted the willingness of issuers and brokers to offer a broad range of alternative investment strategies and asset classes to investors through mFund.

4. Active ETPs and the dual access ETP structure are expanding the range of strategies that are available to investors, reducing the comparative advantage of mFund over the ETP structure.

Given the above, it remains unclear to ASX to what extent, if any, addressing existing mFund operational and connectivity issues would increase the long term attractiveness of a settlement service for unlisted managed funds.

Overview of key submissions

Detailed summaries of respondent submissions and feedback are set out in sections 2.2 and 3.2 below. The following key matters were raised in the responses received:

- While the majority of respondents agreed with ASX's observations on the market and investor appetite for mFunds, a number highlighted that mFund was a unique channel through which to access retail investors without investing in the operational, regulatory and compliance functions required to support issuing an ETP.
- The majority of respondents supported a continuation of mFund, however confirmed that mFund was not a material part of their existing business or central to their distribution strategy going forward. In addition, the majority of respondents expressed the view that future support for the continuation of the service would require ASX to commit additional resources to rectifying operational challenges with the current system, connecting more brokers, and marketing the service more widely.
- It was clear from stakeholder feedback that issuers and unit registries expect to bear considerable operational and compliance risk with the wind down and closure of the mFund service.
- In the event that mFund is closed, respondents generally indicated that an extended timeframe of 12 to 24 months would be required to close the service.

Fair and orderly wind-down of mFund

ASX is committed to providing a fair and orderly wind down of the mFund service. In order to facilitate this, and having considered the feedback received in response to the Consultation Paper:

- ASX proposes to conduct a wind down of the mFund services over a period of approximately two and a half years from the date of the release of this paper. This wind down period seeks to provide sufficient time to enable issuers, brokers and registries to complete the necessary activities to ensure a smooth transition for investors.
- ASX will establish an operational industry working group with stakeholders to meet and determine the most efficient way to close the service.
- Subject to further discussion with the industry via the working group, ASX proposes that all funds will be removed from the service by **31 May 2026**.

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

2.1 Summary of feedback received

The majority of respondents confirmed that mFund does not currently play a significant role in their design and distribution strategies for managed fund products. This feedback aligns with ASX's observation that total funds invested through the mFund platform has declined in recent years.[6]

The majority of respondents also broadly agreed with ASX's observations in section 2.1 of the Consultation Paper, most notably the rising popularity of ETPs amongst retail investors and financial advisers. However, a number of respondents observed that mFund products and ETPs should not necessarily be compared on a like-for-like basis given the higher operational, regulatory and compliance obligations associated with supporting an ETP.

Feedback on whether ASX should keep or close mFund varied. While the majority of respondents were in favour of ASX keeping mFund, this feedback was typically qualified and with a number of these respondents noting that ongoing support for mFund required ASX to:

1. invest in fixing operational challenges with mFund in its current form,
2. grow the number of brokers connected to the service, and
3. market the service more broadly to retail investors.

Regarding the comparative advantages and disadvantages of mFund, feedback provided a broad range of views outlining stakeholder impacts. These are summarised in the table below:

Impacted Stakeholder	Summary of core advantages of mFund	Summary of core disadvantages of mFund
Investors	• Access to a broader range of alternative investment strategies and asset classes than ETPs. • Ability to hold units on the investor HIN alongside other ASX listed instruments such as shares and ETPs. • Completion of Anti Money Laundering Know Your Client (**AML KYC**) checks with the broker once, compared to multiple times if investing directly with multiple managers.	• Lack of broker connectivity. • Lack of standardisation with unlisted managed funds compared to ETPs, such as variable initial investment amounts, different application/redemption time-frames and bespoke policies and processes across managers/unit registries. • High minimum investment amounts of unlisted managed funds compared to traded products such as ETPs.
Brokers	• An additional product type (unlisted managed funds) to offer clients, particularly white-label clients and financial advisers.	• Design & Distribution Obligations create higher operational and regulatory risk for brokers compared to ETPs.
Issuers & unit registries	• Unique channel to target self-directed retail investors and smaller independent financial advice firms. • Materially lower level of operational and regulatory obligations compared to ETPs.	• Design & Distribution Obligations create higher operational and regulatory risk for issuers compared to ETPs. • Operational challenges with existing CHESS:

[6] See Appendix A.

Impacted Stakeholder	Summary of core advantages of mFund	Summary of core disadvantages of mFund
	• AML KYC, Foreign Account Tax Compliance Act (**FATCA**) and Common Reporting Standards (**CRS**) checks being performed by the broker reduces the operational burden on unit registries compared to accepting direct applications. • Settlement via CHESS provides a level of certainty for unit registries when compared to receiving applications directly from investors.	○ Bespoke and standalone mFund messages that are not shared with equities and ETPs. ○ Manual applicant information required for some account types, e.g. Trusts. ○ Limited data sharing by brokers, such as investor email address and contact details ○ Free format fields, such as mobile phone numbers, requiring manual correction for messaging. • Integration with core registry systems is required in order to reduce manual handling of mFund orders and processes. This requires development effort and ongoing support by unit registries.

2.2 Threshold questions about mFund

ASX sought input from stakeholders to better understand the future value that a settlement service for unlisted managed funds can provide to the Australian market and to ensure all relevant considerations are taken into account for the purposes of determining whether ASX should wind down and close mFund.

A summary of responses from respondents to each question asked in this section is set out below.

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?

Consistent feedback from a broad range of respondents suggested that mFund does not currently play a significant role in fund managers' distribution strategies. On average, only around 1% of those managers' funds under management (**FUM**) are represented by products admitted to mFund. Only one respondent described mFund as "significant" while two described it as "important".

Four respondents commented that mFund is a unique distribution channel that provides easy access to brokers, advisers and investors. One of these respondents commented that they observe mFund as being popular with smaller and/or independent financial advisers that manage a portion of their client portfolios on the ASX.

Conversely, one respondent expressly noted that, in their view, mFund did not offer a point of differentiation for their distribution strategy as inflows via mFund were being driven by advised investors rather than self-directed investors.

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?

There was broad acknowledgement from respondents that there has been strong growth in ETPs and that they are increasingly seen as an attractive product to investors and advisers. However, feedback was mixed on whether the increasing popularity of ETPs impacts the mFund service's ability to make a meaningful impact on issuer's distribution strategy, resourcing and capabilities.

Five respondents commented that the mFund service and ETPs were not a like-for-like comparison, with reasons provided falling into two categories:

1. **ETP suitability**: There are certain unlisted managed funds with investment strategies and underlying instruments that are either not suitable for the ETP structure or that cannot currently be admitted as an ETP under ASX's rules.
2. **Cost**: The overall regulatory, operational and compliance requirements to run an investment strategy under an ETP structure are more onerous compared to an mFund.

Two of these respondents currently offer both ETPs and mFunds. They generally commented that they see the two services as complementing one another, allowing a diverse range of potential investors to access a broad suite of funds across both structures.

One respondent was of the view that the growth in ETPs is primarily being driven by investors and advisers wanting to access low cost index tracking strategies, not active strategies.

The FSC commented that "*ETP offerings are increasingly seen as more attractive to investors than mFund and without further investment and development in mFund some issuers may not intend to offer new mFund investments in the future*." [7]

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?

Respondents identified a number of advantages and challenges in servicing mFund and presented their observations as either standalone commentary on mFund, observations relative to servicing direct non-advised investors, or relative to servicing an ETP.

A summary of the comments provided are as follows.

Operational advantages with mFund

- **CHESS HIN:** mFund enables investors to use their CHESS HIN as an easy and efficient way to hold managed funds alongside shares, ETPs and other products admitted to ASX.
- **CHESS Settlement:** The settlement cycle via CHESS allows for surety of cash receipts and lower administration and/or failure risk than unlisted managed fund transactions directly with the manager.
- **Broker KYC processes:** AML KYC regulatory activities being performed and confirmed by the broker and the transmission of FATCA and CRS details reduces the investor account set up time for unit registries compared to investors that invest directly with the manager.

[7] https://www.asx.com.au/about/regulation/public-consultations

- **CHESS integration:** For unit registries that have integrated mFund to their core registry system and automated message workflows, the capturing of mFund transactions is more efficient with less risk than those instructions received directly from investors.
- **Operational model compared to ETPs:** In comparison to ETPs, mFund provides a reasonably streamlined and lower cost operational model for fund managers, as it largely integrates seamlessly with issuer's existing operating model. This is compared to ETPs which requires a clear step-change in the operational, technology, compliance and governance structures of issuers. For example, ETPs require a market making arrangement, operational set-up for appropriate portfolio disclosures, calculation and dissemination of iNAV to vendors (in some cases), and website development to meet certain requirements, among other specifications.

Operational challenges with mFund

- **Lack of broker connectivity:** A core challenge identified is the limited number of brokers that offer mFund related services. This creates limited opportunity for managers to grow their product, and also causes operational issues when investors want to move to a broker that is not connected to mFund. It was suggested by two respondents that this may have been influenced by the announcement of a CHESS replacement system, making brokers reluctant to invest in a system which is planned to be made redundant.
- **Effort to integrate core registry systems with CHESS:** To reduce manual handling of mFund transactions, unit registries need to complete development work in order to integrate CHESS messages with their core unit registry systems. A number of unit registries that have not completed such development noted that supporting mFund is a manual process to process into their core registry systems. This requires operating models to be developed at their expense to accommodate mFund's settlement structure. It also requires operational staff to be knowledgeable in CHESS messaging used for mFund. This operating model is not scalable and would cause problems should mFund volumes increase.
- **Missing investor details:** There were three primary challenges observed with investor details received via CHESS:
    1) CHESS messages for mFunds do not contain all the fields to capture all the information that is needed to fully complete an investor set up. For example, FATCA/CRS information for controlling persons are not available.
    2) The free format of some of the fields allows information to be sent in different formats which causes errors and requires manual intervention to rectify. For example, entering mobile numbers with spaces.
    3) The inability of an mFund investor to change/update their details via some brokers that have not developed the capability to send updated investor detail messages.
- **Design & Distribution Obligations (DDO):** Funds admitted to the mFund service do not have the benefit of the modified DDO obligations applicable to ETPs, and so additional obligations apply to issuers and distributors (including brokers) in relation to unlisted managed funds offered via mFund, when compared to ETPs. One respondent noted that the introduction of DDO in 2021 resulted in reduced broker support of mFund and may discourage broker use or support of mFund in the future. ASX is aware of one retail broker ceasing to offer mFund related services as a consequence of DDO.

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?

Respondents highlighted a number of legal, regulatory and technological changes that will impact ETPs and mFund/unlisted managed funds, however there were mixed views on how/if these changes will impact the attractiveness of ETPs relative to mFund/unlisted managed funds.

Three respondents commented that AML KYC, FATCA/CRS, and DDO were the main regulatory considerations going forward for both ETPs and mFund. One of these respondents commented that the DDO requirements for ETPs are less onerous than for mFund/unlisted managed funds.

Two respondents commented that technology change via the CHESS replacement project could have a positive impact on the attractiveness of mFund. The respondents observed that more shared CHESS messages between equities and mFund (i.e. less standalone messages for mFund as is currently the case) would be a positive outcome for mFund.

FSC commented that "*Whilst asset classes able to be accessed via ETPs are continuing to expand, a broader range of strategies or asset classes may be suited to mFund compared to ETFs.*"

ACSA commented that "*as ETP is increasing in its popularity, given its value proposition to investors, unit registries will need to adopt more STP processes to reduce servicing costs.*"

One respondent commented that the regulatory and operational obligations for ETPs are notably higher compared with the mFund service.

Three respondents were not aware of any upcoming legal, regulatory or technology changes that would diminish the attractiveness of ETPs compared 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?

Most product issuers who responded to this question indicated that they were not intending to add additional funds to their existing mFunds suite.

Two product issuers with existing products on mFund were considering adding new products to the service prior to the announcement of the Consultation.

Two product issuers with existing products on mFund either have all of their existing funds on mFund or do not create new products frequently, so therefore had no pipeline of products for admission to the service.

Four product issuers with existing products on mFund were not considering adding new products to the service.

The FSC, representing product issuers, commented that "*Feedback received to this question is commonly 'no' given the current system limitations. However addressing the barriers to mFund as outlined earlier in this submission could facilitate growth of, and interest in, mFund.*"[8]

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?

Six respondents expected their usage of mFund to either stay static or decrease. One of these respondents believed the uncertainty around the mFund service's future, coupled with the lack of targeted marketing

[8] https://www.asx.com.au/about/regulation/public-consultations

around the comparative features and benefits of using the service, has limited its growth opportunity. Another respondent commented that the introduction of new products such as dual access ETPs and Active exchange traded funds (**ETF**s) have provided alternative broker distribution channels.

The FSC commented that its members expected their usage to stay static or decrease if mFund stays in its current form (i.e. operational challenges and lack of broker connectivity).

Three respondents with existing mFund products expected their usage to increase. One of these respondents was of the view that if ASX looked at an enhancement to the mFund service via addressing operational challenges, they anticipate there would be potential for their investment managers to utilise the service to a greater extent. Another respondent commented that their increased usage would be assisted if more brokerage firms were connected, and marketing of the service increased.

> **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?

When deciding to add funds to the mFund service, respondents commented that interest from direct investors, brokers and/or advisers drives their decision making. One respondent added that they also consider the appetite among smaller and independent financial advice firms that have historically supported the mFund service, as well as the underlying assets and investment strategy of the fund.

In terms of factors influencing a decision not to use the mFund service, one respondent commented that the limited number of brokers and lack of channel growth influences their decision. Another respondent commented that the lack of self-directed investors using the service is an important factor for them. In their experience, advisers have a preference for using platforms such as Netwealth and Hub24 (primarily driven by a reporting / efficiency perspective), and so as a product issuer they are unlikely to pursue active distribution strategies with mFund. Unit registries highlighted commercial considerations, such as high fees on mandatory payment facility bank accounts and operational limitations requiring ongoing manual intervention by the registry provider.

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?

Respondents commented that the decision to offer mFund was primarily driven by the desire to provide an efficient way for clients to gain exposure to less liquid asset classes, which are better suited to an unlisted structure.

Respondents observed that mFund has primarily been adopted by financial advisers, with one broker commenting that many of the advisers are trading equities with them only because they are offering mFunds. This respondent was concerned that if the ASX ceases the mFund service then it will impact their equity business and revenue adversely.

One respondent noted that adoption amongst their retail clients has not been as high when compared to similar investment strategies offered via ETPs.

ASX

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?

There were mixed responses to this question.

Two respondents suggested that the ASX needed to commit more resources to address some of the operational challenges (see Section 2.2.3 for further detail) with mFund and grow the number of brokers connected to the service.

One respondent suggested that ASX should focus its efforts on the ETP market. They suggested that the ETP framework, with its inherent transparency, ease of access, and liquidity, appeals greatly to a broad spectrum of investors.

Two of the respondents suggested that ASX should provide more guidance on bringing dual access ETPs to market, and enhance its rules and technology to address some of the complexities/anomalies with this structure. It was suggested that bringing across some of the advantages of mFund (such as the transmission of account information, adviser details and FATCA/CRS data) would be of benefit to dual access ETPs.

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?

Each of the four respondents to this question agreed with ASX's summary of the key impediments to the growth of mFund in the Consultation Paper. Two of these respondents emphasised the lack of broker connectivity as a key impediment to growth.

One respondent provided detailed comments outlining additional challenges faced with mFund to the following effect:

- ***High minimum investment amount:*** *Issuers often require higher minimum investment amounts under mFund, compared to the more accessible $500 minimum for ETPs. This significantly reduces the pool of potential customers for mFunds.*
- ***Inconsistencies in acceptable minimum investment amount:*** *The stipulated minimum investment amounts on certain funds are inconsistent, with funds willing to accept amounts lower than the minimum amount.*
- ***Reference data issues:*** *There were challenges with inconsistent and limited reference data provided by the funds in the service. The reference data was often outdated, causing issues throughout the end-to-end process.*
- ***Additional fund requirements****: Some funds introduced requirements that went beyond the given specifications, such as the need for supplementary investor or adviser information not listed as mandatory requirements.*
- ***Service levels with issuers and PISPs:*** *Inconsistent and poor service levels from issuers and their PISPs, possibly due to the manual nature of their integration with CHESS, which contrasts significantly with the streamlined experience with ETPs.*

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

Respondents generally commented that mFund is an immaterial part of their business, however two respondents provided the following qualifications:

- For one respondent, customers who hold mFunds, particularly those with SMSF accounts, are among those with the highest portfolio valuations among their clientele.
- For another respondent, their customer base is made up of white-label AFSLs that hold mFunds and also trade a material amount of equities.

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

Respondents highlighted both advantages and disadvantages with mFund as follows.

Advantages

- Access to a broad range of funds and investment strategies, encompassing those funds in less liquid asset classes such as property and alternatives.
- For fund managers, mFund is relatively easy and quick to set up from a registry perspective.
- AML KYC being performed once by the broker reduces duplication of effort for clients that want to transact in multiple mFunds across different managers.
- The paperless application and redemption process makes it efficient for investors to invest and redeem from products.

Disadvantages

- mFund has limited popularity with retail investors.
- One respondent commented that fund managers have been reluctant to commit marketing resources to growing the service.
- One product issuer highlighted their registry's deployment of digital technology allowing customers to acquire units directly through the registry, thereby offering an alternate distribution channel to mFund.

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?

Two respondents raised the following considerations:

- **Price ambiguity:** A key characteristic of unlisted managed funds that can be confusing for retail investors is the delayed pricing system.
- **Batch cut-off:** Operational challenges include an early batch cut-off, which means that submitted orders then wait until the next day, creating a delay and leading to a customer experience that isn't consistent across the product range. This has led to some customer complaints and confusion, reducing confidence in the product.
- **Transfers:** Complaints have been received about the transfer of mFunds to and from other brokers. These are typically caused by the counterpart broker not supporting mFunds. In some scenarios the client will have to directly deal with PISP where they want to transfer the mFund holding from one broker to another.
- **Frequent updates:** Frequent updates to mFunds often have to be processed via bespoke procedures according to the fund manager's processes, which further complicates the operations.
- **CHESS integration and messaging:** There should be seamless integration in processing mFund transactions. There are multiple parties involved (i.e. Participants, CHESS and PISPs) and there are cases where CHESS messages are not received due to limitations in particular participants' connectivity infrastructure and participants have to resubmit the same message.

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

The single respondent to this question referred to the Advantages section in the response to question 2.2.12.

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

The single respondent to this question referred to the Challenges section in response to question 2.2.12 and responses to question 2.2.13.

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

There were mixed responses to this question. Two respondents commented that their clients were aware of the mFund service, while one respondent commented that their customers (predominately retail investors) were not aware of mFunds and how they operate.

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?

There were no responses provided to this section of questions.

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?

In response to this question, 11 respondents expressed a preference to keep the mFund platform open, 6 said that mFund should close and 1 respondent expressed no opinion.

The majority of respondents:

- supported a continuation of the mFund service, however, these respondents also typically observed that mFund was neither a material part of their existing business nor central to their distribution strategy going forward; and
- expressed qualified support for the continuation of the service, noting that this would be contingent upon the ASX committing additional resources to rectifying operational challenges with the current system, connecting more brokers, and marketing the service more widely.

A number of respondents in support of keeping mFund open noted that it provided a way for issuers to offer their products via the broker channel without the regulatory and operational obligations required to support ETPs.

One broker respondent cited the ability for clients to access a low cost channel to access managed funds as a key reason to keep the mFund platform open. Their contention that "the benefit to investors is strong" was supported by a number of observations about mFunds as follows:

- mFund provides the ability for investors to access managed funds without a financial adviser
- greater integration and convenience in holding funds alongside stocks
- promotes diversification through offering a broader range of investment opportunities than shares and ETFs
- the potential for greater transparency through standardised information and performance metrics

Six respondents supported a wind down and closure of the service, noting that industry trends, particularly the growth in ETPs, have impacted the business case for the service.

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?

There was broad agreement from respondents with the industry trends referred to by ASX in Section 2.1 of the Consultation Paper, particularly that there has been strong growth in ETPs and that they are increasingly seen as an attractive product to investors and advisers. The FSC added that the imposition of DDO obligations on mFund is likely a key barrier to broker support and take up of mFund.

One respondent commented that the growth in the ETP market has come from investor demand for index-tracking products, not Active ETFs.

Four respondents suggested that mFund provides a cost-effective way for active managers to offer their existing managed funds via ASX without the expense and operational overhead borne by issuers to support Active ETFs.

Another respondent generally agreed with ASX's observations on industry trends, however commented that managed funds still remain a popular product structure through investment platforms.

2.3 ASX's response and decision on the future of mFund

As noted above:

- 11 respondents expressed a preference to keep the mFund platform open;
- 6 said that mFund should close; and
- 1 respondent expressed no opinion.

Eight respondents qualified their feedback, noting that ASX needs to make significant enhancements to mFund. In order to grow the service and ensure future support from stakeholders, various respondents suggested the following improvements:

1. Connecting more brokers to the service, and/or
2. Rectifying existing operational challenges that impede optimal performance of the service, and/or
3. Increasing marketing and education of the service.

ASX has considered the following options in relation to the future of mFund:

1. Retain mFund and invest in uplifting the service; or
2. Close the service.

2.3.1 Retain mFund and invest in uplifting the service

ASX agrees with the observations made by respondents that lack of broker connectivity and persistent operational challenges (as detailed in Section 2.2.3) with the current service has contributed to the limited growth of mFund.

The current shortcomings in the existing system are creating sub-optimal outcomes for investors and participants alike. With this in mind, ASX believes that it is not feasible to retain mFund in its current form. Feedback from respondents also indicates that if ASX does not uplift the service then issuer support for the service will remain limited:

- Only two issuers were considering adding new funds to their existing stable of mFunds (see Question 2.2.5)
- Four issuers said that they no plans to introduce new funds (see Question 2.2.5)
- Six respondents said that their usage of mFund would stay static or decrease (see Question 2.2.6)
- Only three issuers said that mFund was a “significant” or “important” channel through which they distributed their funds (see Question 2.2.1).

In deciding whether to retain and uplift the mFund service, ASX has considered the following factors:

1. Feedback received from respondents that are in favour of ASX keeping and uplifting the service
2. The future growth outlook for mFund if ASX was to uplift the service and try to connect more brokers
3. Timeline to addressing operational challenges and broker connectivity

With the benefit of the feedback received, ASX has taken into account the matters below for the purpose of assessing the future of the mFund service.

2.3.1.1 Feedback supporting the retention of mFund

Those in favour of retaining mFund provided the following key reasons for preserving the service:

1. mFund provides a unique distribution channel in Australia for issuers of unlisted managed funds to access self-directed retail investors and self-managed super funds
2. mFund enables financial advisers access to unlisted managed funds via the client HIN
3. mFund provides greater flexibility for issuers to offer a broader range of alternative investment strategies and asset classes compared to ETPs

4. The overall regulatory, operational and compliance requirements to run an investment strategy under an ETP structure are more onerous compared to an mFund.

ASX's assessment of each reason is set out below.

1. mFund provides a unique distribution channel in Australia for issuers of unlisted managed funds to access self-directed retail investors and self-managed super funds.

ASX agrees that mFund offers a unique distribution channel for product issuers to access self-directed retail investors. Indeed, when ASX first introduced mFund the primary customer segment that was targeted for mFund was self-directed investors and self-managed super funds.

Since the launch of mFund, however, ASX has observed that the primary users of mFund are financial advisers. ASX's own analysis suggests that that only ~30% of mFund applications have come from self-directed investors. The experience of issuers is similar (see Question 2.2.8).

While ASX acknowledges some respondent feedback that mFund not being available through Commsec has been a barrier to retail adoption of the service, we note that it has been available through a number of other retail brokers that, when taken together, have a large retail customer base. These retail brokers include:

- ASX Participants
    - CMC Markets
    - Bell Direct
    - Wealthhub/Nabtrade *(ceased dealing in mFunds in 2021[9])*
- White-label / third-party distributors
    - ANZ Share Investing
    - BankSA
    - Bendigo Invest Direct
    - BOQ Trading
    - HSBC Online Share Trading
    - Macquarie Online Trading
    - St George Broking

ASX's own research through the ASX Australian Investor Study shows that retail investor adoption of unlisted managed funds more broadly has not increased over time. The percentage of all investors using managed funds has remained steady at approximately 8% from 2017[10] to 2023[11].

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[9] : https://www.nabtrade.com.au/campaigns/landing-pages/mfunds#accordion-c1b52690f8-item-bc4ae80c5e
[10] https://www.asx.com.au/documents/resources/2017-asx-investor-study.pdf
[11] https://www.asx.com.au/content/dam/asx/blog/asx-australian-investor-study-2023.pdf

In comparison to unlisted managed funds, there has been considerable growth in retail investor adoption of ETPs, having grown from approximately 6.5% in 2017 to 20% in 2023. In terms of continued growth, Blackrock have forecast that the ETP market will grow to over $400 billion by 2027.[12]

In a broader sense, net inflows into unlisted managed funds have declined in recent years relative to ETPs in Australia.[13]

In light of the above, ASX's view is that mFund is unlikely to achieve material growth or scale with self-directed retail investors, especially when compared to ETPs. As a consequence, mFund is unlikely to meet one of its original business objectives.

2. mFund enables financial advisers access to unlisted managed funds via the client HIN

Some respondents highlighted that there are financial advice groups that utilised mFund for some of their clients that prefer to hold assets on HIN. ASX's own analysis suggests that approximately 70% of mFund applications have come from financial advisers.

In light of ASX's view about self-directed retail investors above, ASX expects that the primary adopters of mFund will likely continue to be financial advice firms that seek to hold their client's assets on HIN.

ASX is mindful that mFund is not the only channel through which financial advisers access unlisted managed funds. The wealth management platform market with $1 trillion[14] in assets is a formidable competitor channel for mFund in the unlisted managed fund market. The heavy presence of platforms in the issuers' distribution mix and as well as being the preferred adviser channel for accessing unlisted managed funds was noted in the feedback (see Question 2.2.7).

In addition to the dominant market position of platforms, technology has also evolved since the introduction of mFund that makes it easier for fund managers to offer their funds directly to financial advisers and self-directed investors. This development has reduced the comparative advantage of the paperless application process of the mFund service.

At the same time, ETPs represent an alternative structure by which advisers can access managed funds on HIN. Financial adviser adoption of ETPs in Australia is growing with ~77% of financial advisers either currently or intending on using ETPs.[15]

In summary, there is no doubt that mFund meets the needs of HIN based investors but the target market is small and under increasing threat by competing offerings such as wealth management platforms and ETPs. It is ASX's view that this will continue to suppress mFund growth into the future.

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[12] https://www.afr.com/companies/financial-services/blackrock-slashes-fees-on-asx-etf-undercuts-vanguard-20230216-p5cl7y
[13] With the exception of 2021, ETPs have received higher flows than unlisted managed funds in four of the last five years. Source: Stockhead
[14] https://www.afr.com/companies/financial-services/wealth-platforms-near-1trn-as-markets-lift-all-boats-20220113-p59nyh
[15] See chart 3.11 of the *2022 Australian Financial Adviser Landscape Report*: https://www.ardata.com.au/wp-content/uploads/2022/05/AFALandscape2022-AB_R2.pdf

3. mFund provides greater flexibility for issuers to offer a broader range of alternative investment strategies and asset classes compared to ETPs

Respondents identified that a core advantage of mFund historically has been that it provides access to a broader range of alternative investment strategies and asset classes than ETPs.

ASX agrees with this observation but also notes that there are two industry developments that, when taken together, are continuing to weaken this advantage of mFund relative to ETPs.

a. Design & Distribution Obligations (DDO)

A number of respondents highlighted that DDO has increased the regulatory and operational obligations of issuers and distributors. This is particularly prevalent for those that service self-directed retail investors.

DDO has introduced additional compliance requirements for product issuers and distributors (including brokers) as well as, but not limited to, taking 'reasonable steps' that are reasonably likely to result in financial products reaching consumers in the target market defined by the issuer.[16] While issuers and brokers may take different approaches to implementing DDO, in ASX's view there is a risk that DDO interrupts the established work flow of mFund applications and places additional operational and compliance burdens on both issuers and brokers that offer mFunds to self-directed retail investors. In practice, this may impact the willingness of issuers and brokers to use mFund as a distribution channel, and therefore limit the availability of mFund options for investors.

As a direct consequence of DDO, ASX is aware that one broker is no longer allowing mFund applications for self-directed investors and another broker has limited its investment menu to simple managed investment schemes only i.e. not those products that are typically considered to be alternative investment strategies and asset classes.

It follows that the menu of funds on mFund available to retail investors will likely become more conservative over time i.e. fewer alternative investment strategies and asset classes will be made available to retail investors. As a result, the types of investment strategies and asset classes available on mFund compared to ETPs would not be dissimilar, rendering mFund less relevant over time.

b. Active ETFs / Exchange Traded Managed Funds

Historically, the ASX ETP market was generally limited to transparent index-tracking strategies that appointed an external market maker.

ASX admitted the first non-transparent Active ETP in 2015. Since then the market has continued to evolve and as at 31 August 2023 there were 77 Active ETPs quoted on the AQUA Market representing approximately $8.7 billion in FUM held in CHESS.

[16] https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-274-product-design-and-distribution-obligations/

In addition, the introduction of the 'dual-access' ETP structure in 2020 has enabled fund managers to more easily convert existing unlisted managed funds to an ETP. ASX notes that there are existing examples of issuers that have or are contemplating converting their mFund to a dual access ETP.

While ASX acknowledges that not all fund strategies are suitable to be offered as an ETP[17], the ongoing evolution of the ETP market has helped facilitate a greater range of investment strategies to be made available to investors. For example, in recent years ASX has made changes to expand the list of acceptable Underlying Instruments for AQUA Products to include deposit products, Money Market Instruments, Eligible Debt Portfolios (which include certain fixed income products that are subject to a reliable pricing framework) and Crypto Assets.

In our view there are currently a broad range of strategies that can be admitted under the ETP rule framework, and ASX is committed to continuing to consult with issuers and the market to review and ensure our rule settings are fit-for-purpose to enable retail investors to access a broad range of products.[18]

In ASX's view the ETP market and the types of products that can be admitted to ASX will continue evolve over time. This evolution, while positive for the ETP market, will continue to weaken the advantage of mFund relative to ETPs.

4. The overall regulatory, operational and compliance requirements to run an investment strategy under an ETP structure are more onerous compared to an mFund.

A number of issuers identified that the investment required to support an ETP is significantly higher compared to an mFund, and therefore ASX should consider retaining mFund.

ASX acknowledges that there is a material difference between the effort to support each product structure and concedes that this is a clear point of difference between mFunds and ETPs.

Despite this, the ETF market, currently at $150bn in FUM, is forecast to grow to between $200bn and $450bn over the next 5 years[19]. In addition, Active ETFs have $8.7 billion in FUM across 77 products. Access to a large and growing investor base across Australia is the trade-off for the larger investment in resources to support an ETF and is one of the principal reasons why issuers are increasingly looking to ETPs, rather than mFunds, for funds flow.

2.3.1.2 The growth outlook for mFund

As mentioned above, a number of respondents expressed the view that increased broker connectivity, improved operational efficiency and greater marketing may promote growth in the service. ASX does not disagree with this feedback.

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[17] These funds may have investment strategies and underlying securities that can't be admitted under ASX's rule framework.

[18] In ASX's consultation paper, entitled Enhancing the ASX Investment Products Offering, ASX seeks feedback from the market on a wide range topics in relation to ETPs, including permitted investments (Section 7). A summary of the responses received can be found in Summary of Responses – Enhancing the ASX Investment Products Offering on the ASX website: https://www.asx.com.au/about/regulation/public-consultations

[19] https://www.morningstar.com.au/insights/etfs/235086/who-will-win-australias-etf-wars and https://www.afr.com/companies/financial-services/blackrock-slashes-fees-on-asx-etf-undercuts-vanguard-20230216-p5cl7y

Consultation feedback, however, did not provide any details regarding what increase in service uptake or FUM, if any, could reasonably be expected from investing in the suggested improvements (see Question 2.2.24). In addition, as mentioned in Section 2.3.1.1, ASX has concerns regarding the outlook for retail investor and financial adviser adoption of mFund, particularly in light of the DDO regulations and the growth in ETPs.

It remains unclear to ASX to what extent, if any, addressing the mFund operational and connectivity issues would increase the long term attractiveness of a settlement service for unlisted managed funds when taking into account broader industry trends, including:[20]

- increased adoption of ETPs by Australian retail investors and their financial advisers[21]
- the ability to admit actively managed non-transparent ETPs in the Australian market
- declining net inflows into unlisted managed funds relative to ETPs in Australia[22]
- 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 same unit class 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
- the increased regulatory and operational obligations of mFund issuers and distributors as a result of Design & Distribution Obligations (**DDO**).

2.3.1.3 Timeline to addressing operational challenges and broker connectivity if ASX were to retain mFund

If ASX were to retain and uplift the mFund service, any fixes to mFund's operational challenges and broker connectivity would be best addressed in the new CHESS system. The decision in November 2022 to reassess the solution design for CHESS replacement means the project timeline for completion is now extended. As a result, if the decision was made to retain mFund, the current limitations of the service will continue subject to the timing of that project, which is in the process of separate stakeholder engagements.

2.3.2 Closure of the service

Taking all of the above together, and after careful consideration of respondents' comments, ASX has reached the conclusion that the changing market environment and investor preferences have had an adverse impact on the business case for continuing mFund, and so the service should be wound down and closed.

[20] Refer to section 2.1 of the Consultation Paper and the responses to Question 2.2.3, 2,2,4 and 2.2.25 above.
[21] The market cap of ETPs quoted on ASX has increased from $9.9bn in January 2014 to $143bn as at 31st May 2023
[22] With the exception of 2021, ETPs have received higher flows than unlisted managed funds in four of the last five years. Source: Stockhead

3. Feedback on the implications of closing mFund

3.1 Summary of feedback received

Feedback from respondents suggests that closing the mFund service will be a complex and labour intensive exercise, particularly for issuers and registries, requiring a high degree of co-ordination between all participants and the sharing of information between stakeholders.

Investor communication was highlighted as a key undertaking to assist with issuers and their unit registries performing AML KYC checks and complying with DDO to assess investor suitability for the product. In addition, alignment of approaches to regulatory compliance and shared expectations among issuers will be important to ensuring a smooth transition, with registries heavily impacted.

Some issuers have also indicated a preference to convert their mFunds to an ETP.

Respondents expect the ASX to take a leadership role in managing the closure and conversion of holdings to be held directly with the issuer. The industry is also expecting clear guidance from ASX on the process to convert an mFund to a dual access ETP.

In order to help ensure an orderly wind down process, a number of respondents suggested that a transition window of 12 to 24 months would be needed.

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

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

A summary of responses from respondents to each question asked in this section is set out below.

Questions for mFund Issuers (Fund Managers/Registries)

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

There were ten responses to this question with respondents focussing on both the distribution and operational impacts of the closure.

ACSA submitted that extensive planning and co-ordination would be required between registries, fund managers and responsible entities. Client service teams would be heavily impacted with an expected influx of investor enquiries. Client communications was considered of paramount importance to inform investors of the changes and options.

Echoing the sentiments of many respondents, ACSA also highlighted the potentially significant impact (including on registry service teams) of conducting new AML KYC, FATCA/CRS and meeting DDO obligations.

Four respondents suggested obtaining guidance from AUSTRAC and ASIC on a practical resolution to the AML and DDO challenges, with some calling for an exemption from such obligations to facilitate the orderly transfer of client records to Issuer Sponsored holdings.

Loss of revenue from the closure of the service was cited as a key impact by one registry while the general disruption to BAU activities was a common concern among respondents.

The majority of issuers described the impact of the closure on their distribution strategy as ‘low’. In contrast, all issuers described the operational impacts as ‘high’ with additional data capture to satisfy AML and DDO being a repeating theme.

Many issuers were wary of the possible leakage of FUM as a result of investor fatigue with the additional paperwork requirements and associated complexities. It was submitted that traditionally low investor response rates to mail outs[23] can be expected to compound the administrative burden on Issuer and registry service teams and will likely prolong the timelines required to close the mFund service. One registry respondent highlighted that investors who haven't sufficiently met AML KYC requirements may be denied access to their funds until such requirements had been fulfilled. Financial compensation to cover the extra costs associated with data collection was also raised by respondents and one Issuer noted that firms could suffer from reputational damage as a result of poor customer experience in the wake of the extra data collection burden.

From a marketing materials perspective, issuers noted that they will need to review and amend all websites, product disclosure statements and other artefacts to remove mFund references. One Issuer commented that this would require a specialist project team.

To mitigate the effects of the closure, four respondents expected some issuers to convert their underlying mFunds to ETPs.

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

The majority of respondents recommended a timeframe of between 12 and 24 months from the time that the ASX announces a decision on the closure of the service.

The FSC recommended a minimum of 24 months, while one Issuer suggested as little as 3 to 6 months.

In general, respondents with more FUM and clients to transfer off the mFund service preferred a longer timeframe, commenting that an extended time frame was justified to allow sufficient time to:

- Collect client data for AML KYC and DDO;
- Develop strategies to address operational, compliance and reputational risks inherent in the closure process; and/or
- Convert the Issuer mFund to an ETP.

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?

Feedback indicated that respondents had no objections to the proposed milestones. Three respondents highlighted the need for further detail and clarity in relation to the final wind down timetable. Additional points raised by respondents include the following:

- Confirmation that issuers will be able to terminate mFund earlier than the closure date
- Trade freezes may be required in the lead-up to termination and ensure all settlements are processed accordingly
- Termination dates and related processes should avoid quarter distribution and financial year end periods
- Clarity whether the entire mFund connection and messages would be closed down

[23] The FSC submission commented that response rates to mail outs were typically ~5%.

- Clarity around how transactions would be handled during the wind down period (e.g., stop new applications, full or forced redemptions)
- Alternative pathways for mFund issuers (such as unlisted, active ETF, dual access ETF) and provision of clear guidelines on pathways and requirements for conversion
- Communication of alternative options for investors
- Clarity around the fate of investors who remain in the fund post the mFund closure date (i.e. process for forced redemptions)
- Product Issuer Specialist Participant (PISP) resignation procedures and return of settlement bonds
- Details of CHESS messaging decommissioning

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)?

This question sought to provide stakeholders a broad remit to raise any issues not already covered by other questions and the breadth of answers reflected this flexibility. Many responses amounted to recommended actions that the ASX could undertake and highlighted specific areas of concern for respondents. Feedback to this question included:

- In the interests of efficiency, some respondents suggested that ASX manage investor communication in conjunction with the broker community in line with an industry standard approach to AML and DDO data collection.
- That ASX would need to facilitate bulk conversion messages on closure date, closure of ASX payment facilities and suspension of initial applications from investors on their HIN.
- Issuers, registries and investors should not be expected to bear any additional costs as a result of closure.
- The ASX should facilitate a process whereby key client contact information is provided to the issuer and an investor education campaign to raise investor awareness of mFund closure including the need to complete application forms and verify their details with issuers directly
- A request that the ASX obtain advice to confirm that there are no tax implications from the conversion of CHESS sponsored to issuer sponsored units
- ASX should conduct an audit of messaging services provided under mFund to ensure dual purpose messages intended for other listed products are preserved and confirm with registries.
- ASX to facilitate the sharing of experience between issuers such as fund specific constitution issues or broader Issuer DDO policies that may arise with the closure of mFund.
- Making the pathway from mFund to ETP less onerous and cheaper for converting mFunds, noting that the conversion option will have the least impact on investors.
- Issuers and advisers may have issues complying with their best interest obligations to investors should investors incur a tax liability if forced to realise their investment.
- The ASX should consider applying to both ASIC and the ATO on behalf of issuers to obtain relief from regulatory and tax obligations.

ASX anticipates that these issues will be considered in consultation with the proposed industry Working Group that will form following the announcement of the closure of the service (see Section 3.3).

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

The majority of respondents indicated that fund termination would be unlikely with mFund clients generally in an ordinary class of units that will continue.

One manager said that their funds have dedicated mFund units which would need to be closed to new investments bringing their future viability into question.

> **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?

Respondents to this question repeated their concerns about the amount of time required to procure data from clients to fulfil AML and DDO obligations, and emphasised the extended time that would be required to liaise with investors. Comments also suggested that project management resources and professional advice would add to effort and costs.

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

The seven respondents to this question were mixed in their views on closing early. Some saw it as the issuers prerogative to close funds at a time that suited them, while others saw efficiencies in closing funds in batches or all at once. Either way, feedback emphasised the need for a high level of co-ordination among stakeholders should timings be left in the hands of individual issuers.

Questions for mFund Brokers (Trading/Settlement Participants)

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

There were three responses to this question – two of which were from brokers.

One respondent expressed concern that closure of the service may lead to the dissolution of client HINs and subsequent transference of entire client portfolios to wealth management platforms, while another respondent foresaw an erosion of their competitive advantage.

The third respondent, a registry, repeated the previously noted issues around the impact of the closure on BAU and difficulties fulfilling AML KYC obligations. A further complication could arise from decisions by fund managers regarding alternative distribution channels they might adopt. For example, a move to a traditional unlisted fund could result in an increase in manual transactions which would reduce efficiency and increase risk.

> **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?

Retention of FUM was expressed as a priority for one Issuer who also emphasised the need for clear communications to investors to ensure the flow of FUM to alternative fund equivalents where appropriate.

Another respondent stressed an extended timeline, collaboration with stakeholders and communications as key aspects to minimise impact on participants.

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

The only respondent to this question, a broker, noted that in the absence of mFunds, they may lose clients to competitors.

> **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?

One respondent requested ASX to provide 6 months' notice ahead of key milestones to facilitate development work.

Another respondent asked for ASX to make a decision on mFund's future in advance of, or in conjunction with, any developments in relation to CHESS Replacement.

> **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?

The three respondents to this question referenced earlier answers or agreed with the proposition that Table 1 covered the key milestones to minimise disruption to their businesses.

One respondent noted that there was need for significantly more detail around the key milestones in Table 1 and asked for ASX to identify any CHESS replacement dependencies.

Questions for mFund Holders (Investors/Advisers)

> **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?

There were no responses to this question.

> **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?

There were no responses to this question.

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

There were no responses to this question.

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

There were no responses to this question.

Questions for Other Stakeholders

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

There were three responses to this question.

ACSA noted on behalf of its members that the proposed closure of the mFund service is not unforeseen and would be in line with observations on declining client demand. They called out specific issues to be addressed as follows:

- timelines of when the closure/wind down will be completed
- guidance on the off-boarding process,
- details of how will the process work, and
- available alternatives for clients.

The FSC submitted that:

- mFund would preferably not be closed, noting that mFund provides investors with additional access to unlisted managed funds but also observed that mFund, in its current form, is unlikely to play a significant role in fund manager's distribution, product design or manufacturing.
- A number of *"system frictions"* exist in the current operating model that would need to be addressed, including greater broker system integration and increased broker adoption of mFund.
- If ASX decides to close the mFund service, ASX should include stakeholders in the planning process *"to facilitate an orderly transition and to help industry to best manage the significant administrative, financial and resource imposition that arises from mFund closure"*.

The third respondent highlighted that clarity in the removal process steps would be important and suggested that a staggered approach to removing funds be adopted.

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

There were four respondents to this question who reiterated their prior advice in relation to the wind down process.

ACSA said that its members were wary that their clients would be affected differently by the closure and thus had differing views on the timeline. That said, the registries were generally supportive of the proposed wind down and closure of mFund as outlined in the consultation paper. They emphasised that product issuers and investors require sufficient time to understand the impact and consider alternative options that will form part of the off-boarding roadmap. Whilst some clients may want to engage early, others may require the full period to ensure proper communication, engagement, and due consideration are followed.

FSC cited member feedback that indicated that at least a two year transition process would be required from the announcement that mFund will close, to enable forward planning and an orderly transition.

Respondents expressed their timing preferences for the wind down and closure of mFund at different points in their submissions. An overall summary of the responses received on the timing question is provided below:

Preferred mFund Closure Notice period	# Respondents
< 12 months	1
12 months – 24 months	7
> 24 months	2

3.3 mFund wind-down and closure plan

The feedback received in this section has greatly assisted ASX to begin to develop a co-ordinated wind-down and closure plan to ensure the fair and orderly wind down of the mFund service.

mFund industry working group (IWG)

ASX intends to co-ordinate the establishment of an industry working group to navigate the issues identified in the responses summarised in this Section 3 to facilitate the wind down and closure of the mFund platform. Participants from across the mFund value chain will be invited to join the group to address how to:

- Ensure an orderly wind down of the mFund service
- Deal with the compliance risks associated with AML KYC, FATCA/CRS and DDO for issuers
- Enable sufficient time for communication to investors and financial advisers
- Make representations to regulatory bodies or other third parties on behalf of participants affected by the closure
- Provide an open communication channel with the ASX on matters of concern to issuers, registries and brokers
- Monitor the progress of participants in their critical path activities as the platform winds down
- Ensure that the closure timeframe is met

ASX will commence activities to establish and recruit members to the IWG in November 2023.

Proposed mFund closure timetable

A clear theme from the responses to this consultation is that stakeholders expect the wind down of mFund to have a large/significant operational, compliance and administrative impact. Recognising this feedback, and the responses to question 3.2.18, ASX is conscious that industry will require a reasonable and realistic timetable to achieve the wind down of the mFund service in a fair and orderly manner.

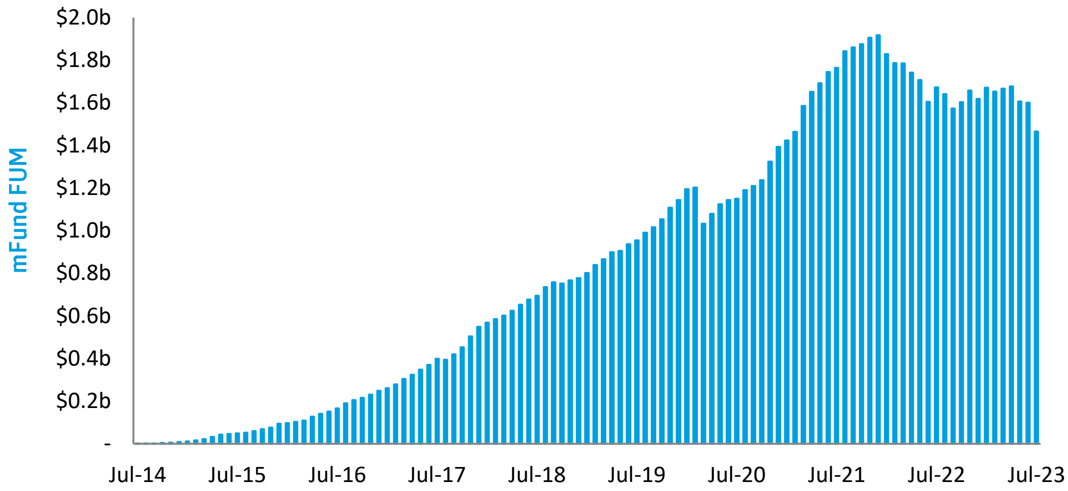
As flagged in section 3.2.18 above, two respondents indicated that at least 2 years would be needed to wind down mFund in a fair and orderly way, particularly noting the AML/CTF KYC, DDO, FATCA and CRS issues summarised above. With this in mind, ASX proposes that mFund should be wound down and closed over a period of approximately two years and six months with a target removal date by **31 May 2026**.

The draft timetable below has been generated based on the feedback provided in this section 3 and outlines the major activities for closing the service and their target completion dates. It is expected that the mFund IWG will provide input into this timetable to ensure that it appropriately takes anticipated industry and stakeholder issues into account, and responds to any additional issues as they arise.

Stage	Description	Target Date	Potential Milestones (non-exhaustive)
1 Initial Wind Down	Limit expansion of the mFund service & commence industry engagement	November 2023	• Content released on ASX website to assist impacted parties e.g., FAQs. • Suspension of new mFund product admissions. • Fee relief relating to mFund with respect to broker/PISP transaction fees and issuer fees. • Establishment of the Industry Working Group.
2 Removal of Funds	Liaising with mFund stakeholders to convert mFund holdings to direct ownership and remove funds from service.	By end May 2026	• Communicate and liaise with individual product issuers and registries to minimise disruption, e.g., synchronising mFund removal with rolling of PDS documents, avoid clashes with fund distribution dates. • Determine timing for the cessation of new applications to existing mFunds with issuers and brokers. • Removal of funds from mFund and conversion of fund holdings from broker sponsored to issuer sponsored via CHESS. • Conversion from mFund to dual access ETF.
3 Final Closure	Final stages of legal and operational work to close the mFund service permanently.	By end August 2026	• Removal of references to mFund from ASX website and other relevant sources. • Resignation of remaining PISPs and return of Settlement Bonds.

ASX will also commence its review of its rulebooks and current regulatory instruments to identify any necessary amendments to support the wind-down process and remove all references to the mFund service with effect on the service close date. Any proposed amendments to ASX rulebooks will be subject to ASX's usual amendment process.

Appendix A: mFund Growth since Inception



Source: ASX