



ETP Update - March 2024

ETPs holding securities listed on the Moscow Exchange ("MOEX") and depository receipts over MOEX listed securities

1. Developments regarding MOEX securities

On 4 March 2022 the Moscow Exchange ("MOEX") was suspended as a member of the World Federation of Exchanges ("WFE"). In April 2022, the Federation of European Securities Exchanges ("FESE") General Assembly determined to exclude MOEX from its organisation. Consequently, MOEX listed securities and depository receipts listed on global exchanges over securities listed on MOEX ("Affected Securities") ceased to be acceptable underlying instruments for the purposes of ASX Operating Rule Schedule 10A.3.3(c).

In 2022 in response to the Russian invasion of Ukraine, several governments around the world, including the Australian government, extended a range of trade and financial sanctions in relation to Russia. ASX has received feedback from the market that these sanctions have prevented fund managers from being able to dispose of Affected Securities.

2. ASX's approach to Affected Securities

ASX is mindful that the developments above have affected several existing and prospective AQUA Product Issuers. To date, ASX has adopted a "no-action" approach to ETPs with exposure to Affected Securities, on the basis that:

- AQUA Product Issuers are unable to dispose of these holdings; and
- the holdings are minimal.

ASX has developed a monitoring methodology to facilitate ongoing monitoring and enforcement of the AQUA Rules, which takes into account the unique issues raised by Affected Securities (see item 3 below) ("Exposure Methodology"). The Exposure Methodology will apply to new and existing ETPs, and will be implemented under new conditions of approval for affected AQUA Product Issuers:

- **(Existing ASX-quoted ETPs with exposure to MOEX securities)** Several existing ASX-quoted ETPs currently hold Affected Securities, either directly or through an interposed structure (i.e. a Master/Feeder fund). Going forward, ASX expects issuers to continue to monitor their ETPs' exposure to Affected Securities, and advise ASX where that exposure approaches 5% of the NAV of the ETP based on the Exposure Methodology.
- **(Prospective ETPs with exposure to Affected Securities)** ASX will not admit an ETP to Trading Status if it has an exposure to Affected Securities greater than 5% of NAV based on the Exposure Methodology. Any prospective ETP with exposure to Affected Securities will be required to monitor the total exposure and advise ASX where that exposure approaches 5% of the NAV of the ETP.

ASX may take enforcement action to suspend or remove an ETP from ASX where the ETP's exposure to Affected Securities exceeds 5% of its NAV based on the Exposure Methodology.

3. Exposure Methodology for Affected Securities

The methodology ASX will apply to determine an ETP's exposure to Affected Securities will take into account the estimated value of Affected Securities as a proportion of the ETP's NAV, based on the current value of the securities on MOEX. This exposure is determined on a 'look-through' basis to any interposed or Master fund structures.

The aggregate exposure of an ETP to Affected Securities on a particular Trading Day is calculated in accordance with the following formula:

$$\text{Exposure} = \frac{\text{Value Sum}}{\text{NAV} + \text{Value Sum}}$$

where:

"Exposure"	means the aggregate exposure of an ETP to Affected Securities at Trading Close on that Trading Day.
"NAV"	means the net asset value of the ETP at Trading Close on that Trading Day calculated in accordance with the ETP's constitution less the value (if any) attributed to Affected Securities and converted to Australian Dollars (as applicable) based on the FX Benchmark Rate as at Trading Close on that Trading Day.
"Value Sum"	means the aggregate value of each Affected Security in the ETP's portfolio at Trading Close on that Trading Day.

An illustrative example is set out below:

Worked example of a hypothetical Emerging Markets ETF:

- Prior to the Russian invasion of Ukraine, an index-tracking Emerging Market ETF with a NAV of \$100,000,000 holds 100 shares of several MOEX listed companies worth \$3,000,000.
- After the Russian invasion of Ukraine, the Emerging Market ETF's index provider removes the MOEX shares from the index.
- Sanctions applied to the Emerging Market ETF's issuer has the effect that they cannot trade the MOEX shares.
- In accordance with the Emerging Market ETF's unit pricing policy, the ETF gives the MOEX securities a nominal value of \$1 per share (i.e. valuing the 100 shares at \$100).

- Currently the **NAV** of the Emerging Market ETF (including the MOEX shares is \$98,000,000).
- As per the last traded price on MOEX, the **Value Sum** of the 100 MOEX listed shares in the Emerging Markets ETF is \$1,000,000
- The Emerging Markets ETF's exposure to Affected Securities is therefore 1.01% based on the following calculation:

$$\frac{1,000,000}{(98,000,000 - 100) + 1,000,000}$$

ASX expects AQUA Product Issuers to monitor their ETPs' exposure to Affected Securities by taking into account the current values of these securities as they are traded on MOEX. This is to ensure a conservative accounting of the value of these Affected Securities is undertaken in order to monitor and action the total exposure appropriately.

For the avoidance of doubt:

- in general, ASX does not consider derivatives with exposure to Affected Securities to be acceptable underlying instruments for the purposes of ASX Operating Rule Schedule 10A.3.3(c). The Exposure Methodology does not permit these derivatives to be held in AQUA-quoted ETPs, and
- the introduction of the Exposure Methodology does not in any way limit or affect AQUA Product Issuers' ongoing obligations or duties to calculate the NAV of Affected Securities, or the price of Units issued, in accordance with the constituent documents and unit pricing policies of affected ETPs. The Exposure Methodology is an additional requirement for the purposes of monitoring and enforcing affected issuer's compliance with applicable AQUA Rules.

4. Monitoring

ASX will spot check ETPs with exposure to Affected Securities from time-to-time.

5. Not applicable to securities not subject to trade and financial sanctions

The treatment outlined in this ETP Update is not applicable where trade and financial sanctions do not apply. If an ETP has exposure to any financial product over MOEX listed securities that are not subject to trade and financial sanctions (e.g. derivatives over MOEX listed securities or partly over MOEX securities), these investments should be immediately divested by the ETP.

6. Any other questions?

- Existing AQUA Product Issuers should contact the Investment Products Compliance team at InvestmentProducts.Compliance@asx.com.au
- Prospective AQUA Product Issuers should contact the Investment Products Admission team at ip.admissions@asx.com.au to discuss any prospective ETPs with exposure to Affected Securities.

7. Reminder

AQUA Product Issuers are reminded that Australian sanctions laws apply to activities in Australia and to activities undertaken overseas by Australian citizens and Australian-registered bodies corporate (see section 7 of the Charter of the United Nations Act 1945 and section 11 of the Autonomous Sanctions Act 2011). It is a serious criminal offence to contravene a sanctions measure. The penalties include up to ten years in prison and substantial fines. Serious penalties also apply for providing false or misleading information in relation to a sanctions activity (ten years in prison or a substantial fine), or failing to give information or documents requested in a notice from the Australian Sanctions Office (12 months in prison). Further information is available on the [DFAT website](#).

It is the responsibility of each AQUA Product Issuer to ensure that the issuer does not contravene a sanctions law. AQUA Product Issuers must conduct their own due diligence and get legal advice to ensure they are fully informed about their sanctions risks.

If you have any questions in the meantime please don't hesitate to contact the [Investment Products team](#).

Regards,
ASX Investment Products



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