



mFund Settlement Service

*Overview and Operational Guide for
mFund product admissions on ASX
under the AQUA Rule framework*

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Overview

ASX has launched a service that enables investors to buy and sell units in selected unlisted managed funds via the same stockbroking and advisory services they might use to transact shares or other ASX products. The service uses CHESS, the ASX world-class electronic settlement system, to automate and track the process of buying (applying for) and selling (redeeming) units in these managed funds. Investors' holdings in these funds ('mFund CHESS holdings') are held electronically and linked to the same Holder Identification Number (HIN) used to hold other investments transacted through ASX, such as shares. That means investors can track their managed fund investments using the same systems they use for shares and other securities they transact through ASX.

The mFund Settlement Service delivers a range of benefits for investors, stockbrokers and advisers, as well as the issuers of managed funds.

- It gives retail investors access to a significant new investment option through the familiar avenue of their stockbroker or adviser service,
- It enables brokers and advisers to broaden their relationships with clients while maintaining a single view of their investments,
- It gives fund issuers and administrators a new low-cost automated channel to access investors.
- All parties benefit from greater speed, less paperwork, settlement certainty and transparency.

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

- The background to the new service
- The AQUA Rules
- Admission process for Product Issuers
- Operational overview of the new service
- The Fee schedules.

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

Background to the service

The admission of products on ASX has previously been limited to products listed under the Equity Listing Rules, warrants admitted under the Warrant Rules and the quotation and trading of open-ended funds and Structured Products under the AQUA Rules. While each of these mechanisms has served the market well in terms of the flexibility they provide, they do not meet the contemporary needs of the market in some respects.

The mFund Settlement Service is more suited to, and designed for, open-ended managed funds that do not wish to be actively traded but would benefit from the distribution and administrative efficiencies offered by ASX. The new service represents a tailored framework for the settlement of these products as described in this document.

The AQUA Rules

mFund Product Issuers and products are admitted to the service through the ASX AQUA Rules. The AQUA Rules provide a framework for product issuers to settle, quote or trade a range of products on ASX, including Managed Funds, ETFs, and Structured Products.

The AQUA Rules describe:

- Who can be an Issuer of products admitted on ASX;
- What products can be admitted on ASX;
- The rules around admission of products on ASX;
- The rules around product and Issuer disclosure;
- The rules around amending the terms of issue of products;
- The rules around liquidity (for traded products);

A copy of the AQUA Rules can be found [here](#). A full copy of the ASX Operating Rules can be found [here](#).

Products that can be admitted under the AQUA Rules for the mFund Settlement Service

Products that can be admitted under the AQUA Rules can be described as – “.... *products that give investors exposure to an underlying asset or set of assets....*” That is, the value of the product is linked to the performance of the underlying assets rather than the financial performance of the issuer itself.

Additionally for traded and quoted products admitted under the AQUA Rules, the underlying assets, held by these products, are restricted to those that are traded in a market that is transparent and has a robust price discovery mechanism with appropriate disclosure. Markets that meet this description include WFE member exchange traded securities (or baskets of the same), certain types of bonds, commodities and currencies (and indices calculated from the prices of these).

In addition there are several restrictions which apply to traded and quoted products. For example, a fund which invests directly in real property (buildings) or assets like artworks, collectables or wine does not meet the admission criteria.

For products aiming to be settled through the mFund service, the restrictions above do not apply.

In general there are three broad categories of product which can be admitted under the AQUA rule framework: Managed Fund Products, Exchange Traded Funds (ETFs) and Structured Products. Products admitted to the mFund Settlement Service will be admitted as Managed Fund Products.

In addition, a fund admitted to the mFund Settlement Service must be a “simple managed investment scheme” (as defined in the Corporations Regulations) for which the issuer provides disclosure in the form of a shorter PDS (in accordance with Part 7.9 Division 4, Subdivision 4.2C of the Corporations Regulations).

Who can be an issuer of products on the mFund Settlement Service?

The range of issuers that can admit products depends on the type of product being issued. For the mFund service, the issuer must be the Responsible Entity of a Managed Investment Scheme registered with ASIC.

Flexibility of product admission under AQUA

The AQUA Rules have been drafted to provide flexibility to manufacturers of products by operating within a principle based framework.

The rules around product disclosure for mFund products

Issuers (or in the case of a sponsored product, the sponsor) are required to produce a disclosure document that complies with the Corporations Act (or evidence of an exemption from the disclosure requirements under the Corporations Act). A disclosure document sets out information for investors to assess the risks, rights and obligations associated with the product and the issuer's capacity to fulfil its obligations. As noted previously for the mFund service, this disclosure needs to be in the form of a shorter PDS in accordance with Part 7.9 Division 4, Subdivision 4.2C of the Corporations Regulations.

The AQUA Rules impose an obligation on the issuers of products on the mFund service, to disclose information about the net tangible assets (NTA) or the net asset value (NAV) of their fund in accordance with the terms of issue or trust deed of the fund (at a minimum, quarterly under the AQUA Rules). An mFund product's NAV can be reported on the issuer's website.

Issuers of mFund products must also disclose information about the total number of units on issue for mFund products, to give investors a sense of whether a fund's size is growing or decreasing. This information must be disclosed on the issuer's website on a monthly basis. The PDS must indicate where this information can be found.

All funds must also disclose information about dividends, distributions and other disbursements. This information must be disclosed to ASX via the Market Announcements Platform (training can be provided to new issuers on making announcements via the Market Announcements Platform).

Any other information which is required to be disclosed by Issuers to ASIC or investors (including information pursuant to section 675, 323DA or 1017D of the Corporations Act) must also be disclosed to ASX via the Market Announcements Platform at the same time it is disclosed to ASIC or investors.

Admission process for mFund Product Issuers

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

The admission process occurs in two stages – the approval of the Issuer (in accordance with the issuer rules in Schedule 10A, rule 10A.2.1), and the approval of the product (in accordance with the product Rules in Schedule 10A, rule 10A.3).

The approval of the issuer only happens once, for the first product to be admitted by that Issuer, whereas product approval is a separate step each time a new product is admitted to the mFund service.

Approval of the product issuer

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

Admission of the product

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

Document checklist

For the approval of a Product Issuer:

- Issuer cover letter/submission** – ASX requires specific detail as to how the applicable limbs of ASX OR Sch 10A.2.1 are satisfied. This should be signed on letterhead and each limb of the question addressed separately with supporting information provided. In addition it should confirm that the mFund Product Issuer:
 - holds all relevant licence authorisations under chapter 7 of the Corporations Act 2001 (Cth);
 - has adequate facilities, expertise, procedures, personnel and financial resources for the performance of its obligations as a Product Issuer and
 - agrees to be bound by the rules and conditions imposed pursuant to the rules.

For further guidance please contact ASX.

- AFSL** of mFund Issuer (and Investment Manager, where applicable)
- Responsible Entity's Certificate of Registration, Memorandum & Articles of Association**
- Application Form** – ASX OR Appendix Sch 10A.3.3

Product specific documents

- ❑ **mFund product cover letter/submission** – at a minimum, this letter should include the following confirmations
 - confirmation that the issuer satisfies, or continues to satisfy, requirements pursuant to ASX OR Sch 10A.3.1 under which they were admitted;
 - that the mFund Issuer agrees to be bound by the rules and conditions imposed pursuant to the rules;
 - legal counsel confirmation (this must be written and signed by qualified legal counsel, although internal legal counsel is suitable) that the mFund product is:
 - a definition of Managed Fund Products can be found in ASX OR 7100;
 - a 'simple managed investment scheme' (as defined in the Corporations Regulations); and
 - a fund for which the issuer provides disclosure in the form of a shorter PDS (in accordance with Part 7.9 Division 4, Subdivision 4.2C of the Corporations Regulations).
- ❑ **PDS** (a draft PDS is suitable to submit an application – however the final and dated PDS needs to be received before the final decision will be given).
- ❑ **Application Form – Appendix 10A.3.3**
- ❑ **Scheme registration letter – from ASIC**
- ❑ **Investment Administration Agreement**
- ❑ **Fund Constitution**
- ❑ **Index licence** (if the mFund product objective is to track an index)
- ❑ **Unit Pricing Policy**
- ❑ **Registry Agreement**
- ❑ **Nominee Deed Poll**
- ❑ **Custodian Agreement**
- ❑ **Any other document/agreement mentioned in the PDS**
- ❑ **ASX Online Agreement** available [here](#)
- ❑ **mFund product operational set up detail** – please provide separately:

- security descriptions for each fund (subject to ASX amendment and in accordance with the mFund coding convention above);
- description of the mFund product's principal activity (this is a one-line description of the fund's objective, e.g. aims to deliver the return of the S&P/ASX 300);
- issuer's ABN/ACN, place of incorporation;
- each mFund product's ABN & ARSN, place of incorporation, contact detail (phone and email address), registered address/corporate office;
- number of units allotted for each mFund product;
- Fund Profile (discussed in (5) above); and
- confirm the Registry (including state) and PISP for each code

Indicative timetable

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

Product Disclosure Statement Changes

The prospective issuers of mFund products should give consideration as to whether PDS changes will be required as a result of admitting the mFund product to settlement status on ASX.

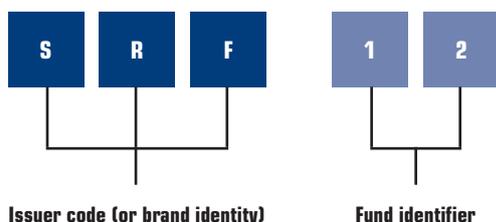
Fund Profile template

ASX makes a Fund Profile available for each mFund product. The purpose of a Fund Profile is to encapsulate the main features of the mFund product as detailed through its PDS/Offer document. The Fund Profile should be completed by the issuer and submitted along with the PDS/Offer document at the time of admission for settlement on the mFund Settlement Service.

This contains certain information such as investment minimums. Note ASX does not validate the investment minimum through CHESS. It is the responsibility of the unit registry to validate investment applications and redemptions.

Product codes for admission

The graphic below explains how to read the five character mFund code which each mFund product is issued with:



Each mFund code is made up of two parts.

- The first three characters represent the issuer code (or the brand identity of that group of funds for third party issuers) and are alphabetical characters.
- The last two characters represent the specific fund and are numerical characters.

Issuer code (or brand identity)

Depending on whether the first three characters of an mFund code represent a regular issuer or a third party issuer, one of two forms of description is used for the three character issuer code.

A regular issuer uses the legal name of the Responsible Entity, eg Fund Issuer Limited.

This is used when an mFund Product Issuer markets and brands funds with its own identity.

An example of the issuer descriptions used in ASX systems for a regular issuer would be:

Full name (50 chars)	Fund Issuer Limited
Abbreviated name (20 chars)	FundIssuerL
Short/ASX Trade description (9 chars)	FundIL
ASX code	FIL

A third party issuer uses the brand identity or marketing name used by that group of funds, followed by the legal name of the Responsible Entity in brackets, eg Safe & Reliable Funds (Fund Issuer Limited).

An example of the issuer descriptions used in ASX systems for a third party issuer would be:

Full name (50 chars)	Safe & Reliable Funds (Fund Issuer Limited)
Abbreviated name (20 chars)	Safe & Reliable
Short/ASX Trade description (9 chars)	Safe&Rel
ASX code	SRF

The legal entity of a third party mFund Issuer may be used in multiple three letter codes if that mFund Issuer acts as the third party issuer of the funds of multiple brands.

Fund Identifier

The remaining fourth and fifth characters of a five character mFund code represent the specific fund and are unique to it.

An mFund product may already have an APIR ISIN and APIR code issued by APIR Systems Pty Limited. Where an mFund product already has these details, ASX systems will populate this information in the following fields:

ISIN: The APIR ISIN¹ will populate this field. ASX will generate an ASX ISIN² to record in this field for mFund products which don't already have an APIR ISIN.

Short/ASX Trade Description: The APIR Code³ will populate this field. A normal 'Short/ASX Trade Description' will be used for mFund products which don't already have an APIR code.

1 An APIR ISIN can be identified by the first 4 characters being 'AU60'.

2 An ASX ISIN can be identified by the first 4 characters being 'AU00'.

3 A 9 character code which can be identified by the last two characters being 'AU'.

An example of the security descriptions used in ASX systems for mFund products which have an existing APIR ISIN and APIR code can be found here:

Full name (50 chars)	Safe & Reliable No 12 Fund
Abbreviated name (20 chars)	Safe & Rel 12
Short/ASX Trade description (9 chars)	SRF0001AU
ASX code	SRF12
ISIN	AU60SRF00015

An example of the security descriptions used in ASX systems for mFund products which do not have an existing APIR ISIN and APIR code can be found here:

FullName (50 chars)	Safe & Reliable No 12 Fund
Abbreviated name (20 chars)	Safe & Rel 12
Short/ASX Trade description (9 chars)	SAFEREL12
ASX code	SRF12
ISIN	AU0000SRF123

Operational overview

This section outlines key operational requirements for a product to be admitted to the mFund Settlement Service.

Issuer register

An mFund Issuer must have both an issuer sponsored register as well as a CHESS sub-register. The issuer sponsored register must be CHESS accredited.

Welcome packs

As a condition of the ASIC Class Order, in order to ensure that a disclosure document is given to an investor, Product Issuers are required to include within their normal Welcome Packs additional communication.

This is to inform clients that they should have received the current version of the relevant disclosure documents (and specifies the date of those documents) and if they have not, that the investor should contact the Issuer to obtain a copy free of charge.

An Issuer is then obligated to inform ASX of these instances and ASX in turn, is obligated to notify the relevant regulator.

Unit prices

As a part of the mFund service, ASX has enhanced its current ReferencePoint offering to include prior application and redemption price information and security details in respect of mFund products.

This price data will be made available to the market as part of the ReferencePoint Daily Official List end of day price service in the form of a new stand-alone file.

ASX has a relationship with an external data vendor to provide those prices. Product Issuers will need to provide that data vendor with the necessary fund information. Please contact ASX for further information.

PISP

As the mFund Settlement Service only involves primary market transactions, ASX has created a new settlement participant to interface directly with AQUA Product Issuers, the Product Issuer Settlement Participant (PISP).

An AQUA Product Issuer of mFund products is required to become or appoint a PISP in order to interface directly with CHESS to accept and settle transactions on the settlement service.

Each PISP is required to establish separate redemption and payment facilities per AQUA Product Issuer.

For an applicant to be eligible to be admitted as a Product Issuer Settlement Participant, the applicant must under ASX Settlement Operating Rules:

- applied for admission as a Participant in accordance with Rule 4.2.1;
- meets the technical and performance requirements of Sec. 4;
- meets the performance bond requirements of Sec. 4;
- and its Principals meet the capacity requirements of Sec. 4;
- meets the business integrity requirements of Sec 4;
- meets the local establishment requirements of the Rules; and
- meets the payment facility requirements of the Rules.

Distribution

mFund Product Issuers are obligated to make announcements on ASX's Market Announcement Platform with information about distributions.

mFund products and the Market Announcement Platform

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

Announcements for mFund products may be found on MAP under the mFund Issuer's issuer code (which is the first three characters of the mFund code). i.e. announcements for the mFund product using the mFund code SRF12 would be found on MAP under the issuer code SRF.

All announcements for mFund products will also use unique report types which will only be used for mFund products. All of these report types will include the word 'mFund' in the report type descriptions. Only the mFund report types should be selected when e-lodging PDS and announcements for mFund products.

mFund report types will ask for confirmation of which five letter code (the mFund product's code) the announcement relates to. Only one mFund product code may be entered for each announcement e-lodged, i.e. a PDS which provides disclosure for two mFund products will need to be e-lodged twice (once for each mFund product).

All announcements given to the Markets Announcements Office are protected by encryption. Access to e-lodge PDS and announcements on MAP is organised when operational set-up is completed and upon receipt of an ASX on-line agreement form.

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

ASX Listing Rules Guidance Note 14: "Markets Announcements Platform" – provides further details about the operations of the market announcements platform.

Fee structure for product issuers

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

Fee structure

Application fees

- \$15k per new AQUA Product Issuer
- \$5k per new mFund product

Annual fees

- basis points fee based on FUM (see table below)

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

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

The FUM or Market Value in question is the amount of the fund on the CHESS sub-register. This number will be provided by the product issuer.

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

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

A full breakdown of the mFund service fees can be found [here](#).

The next step

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

Please contact:

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