



ASX Investment Products

ETP Update - September 2021

Guidance for AQUA Product Issuers in submission of new applications to ASX.

In this ETP Update, ASX provides new and prospective AQUA Product Issuers with guidance on the level of information to provide as supplementary for new ETP Applications and new applications from Responsible Entities seeking AQUA Product Issuer status on ASX[1], under Schedule 10A of ASX Operating Rules ('AQUA Rules').

New ETP applications

Exchange Traded Funds (ETFs) - index-tracking products

- Copy of the most recent Portfolio Composition File ('PCF') of the index the ETF seeks to track;
- The number of index rebalances since inception; and
- Index Methodology from Index Provider.

Exchange Traded Managed Funds (ETMFs)

Underlying instruments

AQUA Product Issuers will need to provide the below information as it relates to the Underlying Instruments of the ETMF:

- Legal analysis of every possible Underlying Instrument and how each Underlying Instrument satisfies 10A.3.3(c). The template will need to follow the below format;

Underlying Instrument	ASX Operating Rule Reference	Legal Analysis of Underlying Instrument under s764A(1) of the Corporations Act
e.g. ASX-Listed Shares	e.g. 10A.3.3(c)(i)	

- If and how the investment management agreement constrains acceptable Underlying Instruments to 10A.3.3(c) instruments;
- PCF of all holdings that the fund will hold on day 1 (or close to day 1); and
- Expected time the fund will take to be fully invested. Should there be any ‘cash drag’, then detail to support reasons why (e.g. Investment Manager uses dollar-cost averaging to alleviate exposure to entire market risk on day 1).

Liquidity Provision

Internal Market Making

- For those ETP applications where an Internal Market Making (‘IMM’) arrangement is proposed, Product Issuers must assess IMM arrangements in accordance with ASX Guidance Note 12 (‘GN12’)[3];
- Where Product Issuers are seeking to disclose an ETP’s portfolio less frequent than daily, clear rationale on the need for delayed portfolio holdings disclosure will need to be provided;
- To complement an ETPs proposed IMM arrangement, Product Issuers must provide their conflicts of interest policy and information barriers policy; and
- Where a Product Issuer appoints a Market Making Agent who is not an ASX Trading Participant then an application must be made seeking a waiver to AQUA Rule 10A.10.8.

External Market Making - if a pricing basket (or proxy) for a portfolio is provided daily, detail on how closely this correlates to the actual full portfolio. The following must be provided with the application:

- Back testing of correlation of the proxy basket to actual portfolio;
- Confirmation from market maker of their ability to price fund in accordance with minimum market making specifications under AQUA Rule 10A.3.6(b) – a bid and offer at all times for 80% of the ASX Trading Day;
- Methodology of the iNAV, methodology of the Material Portfolio Information (‘MPI’) and all other considerations provided under GN12 requirements; and
- Confirmation of the ability of the Product Issuer to comply with ASIC Information Sheet 230 (‘INFO230’) guidelines relating to the MPI model [4].

New AQUA Product Issuer Applications

In addition to completing the necessary application forms, checklist and supplying the annexures, Responsible Entities seeking to be approved as an AQUA Product Issuer on ASX are expected to provide the below level of information:

- Where an external Investment Manager has been appointed under an investment management agreement, Product Issuers will need to provide ASX with confirmation and detail on the licence authorisations the Investment Manager has in place for the provision of financial services to wholesale clients; and
- Detail on whether the Product Issuer has the AFSL authorisation to self-custody its assets, if not, whether the custodial arrangements are outsourced to an external service provider. Confirmation to support by way of providing an FS71 Certificate from an Independent Auditor.

If you have any queries, please contact the Investment Product specialist team.

Kind regards,

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- [1] The information supplied in this ETP Update should be used as a guide only, which does not represent an exhaustive list of the information required by ASX when assessing new AQUA Products or new AQUA Product Issuers. New and prospective AQUA Product Issuers should note that ASX may request additional information after an application is made to ASX.
- [2] Schedule 10A of the ASX Operating Rules Schedules is contained at this [link](#)
- [3] ASX Guidance Note 12 is [available here](#)
- [4] INFO230: [available here](#)

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