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Practice Group:

Investment Management

ASX's mFund and the Best Interests Duty

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With the Australian Securities Exchange (ASX) set to launch its mFund settlement service in the first half of 2014, investment platform providers and financial advisers need to spend some time coming to grips with the potential implications. mFund will be an online portal and settlement service, making it easier for investors to apply for interests in unlisted managed funds and then manage their investments. It is an obvious competitor to traditional platforms, even though the ASX itself insists that they are potential partners rather than adversaries. The potential impact on advisers will be more subtle. They will need to consider when mFund, rather than a traditional platform, will be in their clients' best interests.

mFund Features

Designed to leverage the simplicity of buying shares through the ASX, mFund aims to make it easier for investors to directly buy interests in unlisted managed funds. Applications and unit pricing will still be handled by the fund managers, but the processes will be streamlined through mFund's central portal. mFund will provide access to current Product Disclosure Statements (PDSs), historical unit price data and other information for all available funds. Following some relief from the Australian Securities and Investments Commission (ASIC), paper applications will not be required, as all orders can be placed electronically.

Initially, only 'simple' funds (which use the eight page shorter PDS regime) will be available through the service, but the ASX intends to expand it to include more complex products over time. Some 65 fund managers have signed as foundation members, with more to be added after the launch.

mFund will utilise the existing Clearing House Electronic Sub-register System (CHESS), so investors can use the same Holder Identification Number (HIN) as they use for shares. This paves the way for consolidated reporting across shares, exchange traded funds (ETFs) and now unlisted managed funds. This has not previously been possible without investing through a platform (discussed further below) or a similar service.

Investors will need to access mFund through a participating broker. To date, 11 brokers have signed on. The ASX will not charge investors to use mFund, so pricing will be determined by the brokers. While specific pricing is not yet available, it is anticipated that investors will be charged by brokers on a per trade basis, perhaps as flat dollar amounts or as a percentage of the value of the trades.

Self-managed superannuation funds (SMSFs) represent an obviously large and growing market segment and mFund has clearly been designed with SMSF trustees in mind. SMSFs currently invest less than 15% of their assets in managed funds and mFund could be a catalyst for this number to grow.

mFund and Platforms

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Platforms have been a significant part of the managed funds landscape for some time, and the objectives of platforms have been to make it easier for clients to transact and to get a complete picture of their investments across a range of asset classes. Platforms include a custody component, so that investments are held 'on platform' in the name of the platform provider (or a custodian), which holds them in trust for the underlying investors. Platforms provide consolidated reporting and aim to ease end of year filings and tax compliance. Some managed funds charge reduced management fees for clients investing through a platform, to reflect their reduced administration costs.

Platforms and mFund both seek to address the needs of retail clients wishing to invest in unlisted managed funds. However, the ASX has been quick to point to the potential synergies between the two. It states that mFund could provide back-office savings for platform operators, and it seems some boutique operators agree, having already signed up as foundation members of mFund.

As platforms often charge asset-based fees as a percentage of funds under management, mFund may well be cheaper for investors, depending on how brokers set their fees and how fund managers price their mFund offerings. If this is the case, it will be challenging for platforms to continue to demonstrate value, and they may need to explore further innovation and evolution of their services to justify any price premium.

Advisers

ASIC has recently updated Regulatory Guide 148 (RG 148). While the Regulatory Guide is primarily concerned with platform operators, ASIC also used the revised guide to set out its expectations for financial advisers who recommend investing through a platform.

To comply with their best interests duty, ASIC expects advisers to justify the use of platforms based on benefits which are relevant to the particular client. ASIC has indicated that it is more likely to scrutinise such advice where the client could have invested directly for less.

Once mFund is launched later this year, advisers may find this analysis becomes more challenging, as they may need to consider mFund as another option for their clients, particularly for clients seeking access only to 'simple' funds. Advisers who do recommend a platform will need to document their reasoning, either in the Statement of Advice or an internal file note.

Financial Services Licensees should look to revisit their processes and their research to ensure they are giving their advisers the tools they need to give compliant advice to their clients. Template documents may also need to be updated to deal with the nuances of recommending a platform over mFund.

While some details are yet to emerge, it is clear mFund could significantly change the managed funds landscape in Australia, with potentially far reaching implications for platforms providers, advisers and fund managers.

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