

July 2012

# Managed Funds Transaction Cost Research

## Impact of ASX Managed Funds Service

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## 1. Executive summary

### 1.1 Background

ASX is developing a service to facilitate the quotation and settlement of managed funds. The ASX Managed Funds Service (AMFS) will facilitate the dissemination of fund unit prices as well as the automation of applications and redemptions of managed fund units using ASX's electronic settlement system, CHESS. This automation aims to reduce paperwork, manual processes and ultimately, transaction costs.

ASX has commissioned Rice Warner to undertake research to determine the extent to which the AMFS will deliver cost reductions to participants and other stakeholders across the industry.

This report outlines the findings of our research.

### 1.2 Cost information

We sought information from 40 industry participants to provide an indication of the costs of transacting managed funds (both pre and post AMFS). To collect the required information we sent each of the industry participants a questionnaire and conducted in-depth telephone interviews with willing recipients. These interviews proved necessary in some circumstances (e.g. advisers) because the recipients did not have a good understanding of their costs.

### 1.3 Other costs

Our cost estimates concentrate on the costs that are incurred as a direct result of the underlying transaction processes. Focussing only on the costs of transaction provides insights into cost savings for industry participants through process automation (as facilitated by the AMFS). We, therefore, have ignored the non-transaction related costs of transacting managed funds, including:

- Platform 'shelf space' costs i.e. the costs a fund manager may incur to be put on the platform (under the current process only).
- Initial fees charged per new issuer (under the AMFS only).
- Initial fees changer per new fund (under the AMFS only).
- Annual quotation fees based on funds under management (under the AMFS only).
- Costs associated with 'Anti-Money Laundering' and 'Know Your Client' processes and setting up of a Holder Identification Number (HIN) (under the AMFS it is expected that these costs will be incurred at the broker/platform stage).
- System development costs for industry participants e.g. systems upgrades to accommodate the new CHESS messaging (under the AMFS only).

Note that our cost estimates focus on the costs of the transaction chain below the investor (that is, the costs of the transaction at the investor's initial contact point in the transaction process and the steps beyond that contact point). We have not considered the fees or other costs that the investor would incur.

## 1.4 Case studies – current process

We have modelled five different case studies, each representing a process that an investor may undertake to transact a managed fund investment. The five case studies are as follows:

1. Direct to Fund – an individual buying or selling managed investments directly from the product manufacturer (under the AMFS process, we assume that the investor will transact via a broker or platform).
2. Via Broker – an individual buying or selling a managed investment via a broker.
3. Via Platform – an individual with investments on a platform buying or selling managed investments through a platform (note that Self-Managed Super Funds may use a platform either directly or via their administrator).
4. Via Adviser – an adviser buying or selling units in a managed investment on behalf of a retail client direct from the product manufacturer (under the AMFS process, we assume that the adviser will transact via a broker or platform).
5. Via Custodian – a custodian buying or selling a managed investment through a product manufacturer for an institutional client.

For each of the case studies we have estimated the total costs associated with the application and redemption (separately) of a managed fund investment. Against each of the case studies we have also modelled the transactions costs of the AMFS, to assess the potential cost savings.

## 1.5 Results

The results of the case studies are summarised in Table 1.

**Table 1. Case studies summary results**

Case study	Application costs			Redemption costs		
	Current	AMFS	Saving	Current	AMFS	Saving
	(\$)			(\$)		
1 – Direct to Fund	27.50	17.60	9.90	30.50	17.60	12.90
2 – Via Broker	42.80	17.60	25.20	45.50	17.60	27.90
3 – Via Platform	42.80	17.60	25.20	45.50	17.60	27.90
4 – Via Adviser	42.80	27.60	15.20	45.50	27.60	17.90
5 – Via Custodian	42.80	17.60	25.20	45.50	17.60	27.90

We make the following comments and assumptions regarding these results:

- The costs identified are the aggregate costs incurred by the different participants and not the fees that would be charged to an investor investing via the nominated route. For instance an investor investing via an Adviser would not pay the costs identified directly. The Adviser's costs would be absorbed into the advice fee or commission charged and the fund manager level costs would be absorbed into the fund's administration fees as disclosed. This ensures that our estimates do not double count costs in the transaction chain.
- An investor/adviser who currently transacts directly with the fund manager is assumed to transact via a broker under the AMFS process.
- The costs for Brokers, Platforms, Advisers and Custodians for transacting managed funds are broadly similar and represent the costs of completing and lodging application forms. However, the average cost assumed in our estimate hides a wide variation in the costs which ranged from a low of \$11.00 per transaction to a high of \$45.00. This range reflects the degree of standardisation and automation of the processes undertaken by the separate transaction participants. For example, platforms and custodians would generally have more standardisation and controls around their process, but the degree of automation varies across the transaction participants.
- None of the brokers we contacted were prepared to provide an indication of how much it may cost to process a managed fund transaction under the AMFS framework. However, based on our knowledge of brokerage costs in the market, we have included a nominal brokerage fee of \$10 charged to the adviser which is double the ASX fee to the broker. We believe this assumption is not unreasonable and note that a brokerage fee of say, \$15 or even \$20 might be incurred. If this were the case it would reduce the estimated potential savings.
- The reductions in aggregate transactions costs from using AMFS may not be passed on in full, but some of the participants we interviewed indicated that they would indeed pass on all cost savings via reduced fees.
- The case studies indicate that the AMFS will significantly reduce the overall transaction costs by at least 35% resulting in a potential industry wide saving of 50%.

## 1.6 Industry wide cost savings

Estimating the cost savings that the industry could potentially benefit from using the AMFS is not easy as there are no reliable sources of industry information regarding managed funds transaction volumes. However, by combining relevant industry statistics with our own knowledge of the market we are able to roughly estimate that it cost the industry between \$290 million and \$430 million to process managed funds transactions in the 2011 calendar year.

If the entire market utilised the AMFS, we estimate that the industry wide transaction processing costs could potentially have halved to between \$145 million and \$215 million (refer to Section 6 [Industry wide cost savings] for the assumptions underlying our estimation).

We acknowledge that our estimates are an overstatement of the actual industry wide savings as it is unlikely that 100% of managed fund transactions would utilise the AMFS. However, it shows what the potential cost savings could have been in 2011.

This report was prepared for ASX by Jonathan Ng. It was peer reviewed by Alun Stevens.

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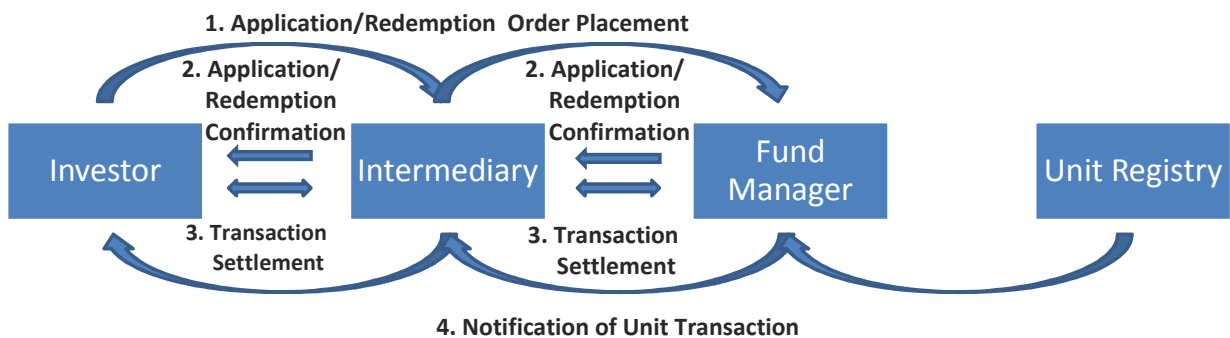
## 2. Investments in managed funds

### 2.1 Current transaction processes

The existing processes for transacting managed funds investments are best described as manual. The lack of a standard order format across fund managers typically results in orders being submitted via fax or scanned and emailed. The processes involved in confirmation and settlement are often similarly labour intensive.

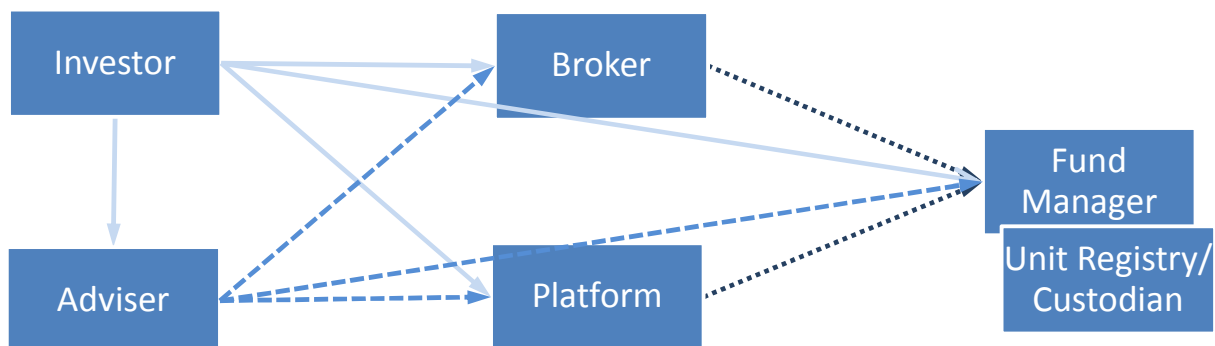
Figure 1 provides a high level illustration of the general processes involved in transacting managed fund investments.

**Figure 1. General processes**



We note the current general transactions process may potentially involve numerous parties. Figure 2 maps out the parties and relationship chains that can exist in a managed fund transaction.

**Figure 2. Relationship chain – current process**



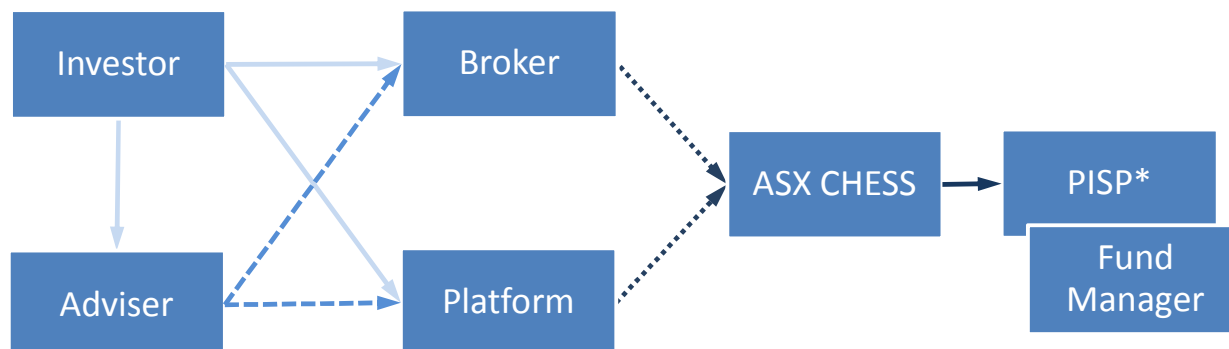
## 2.2 ASX Managed Funds Service processes

ASX has developed a service to facilitate the quotation and settlement of managed funds. The ASX Managed Funds Service (AMFS) will facilitate the automation of applications and redemptions of managed fund units using ASX's electronic settlement system, CHESS. This automation aims to reduce paperwork, manual processes and ultimately, transaction costs.

The managed funds settled through CHESS will be AQUA Products which are quoted and admitted to ASX PriceDisplay<sup>1</sup> through the ASX Operating Rules. Unlike Exchange Traded Funds (ETFs), these quoted products will not be traded on ASX. Applications and redemption requests from brokers will be submitted on behalf of their clients through CHESS to fund managers' unit registries and settled electronically.

Figure 3 maps out the parties and relationship chains that exist for transactions processed through the AMFS. Compared to the current relationship chain (refer to Figure 2), the relationship chain under the AMFS no longer has a direct linkage between an investor (or adviser) and the fund manager. All transactions must be conducted through an ASX Participant (e.g. a broker or a platform) who communicates application and redemption information to the Product Issuer Settlement Participant (PISP) via CHESS. The PISP acts as an agent for the Issuer and will generally perform this role within AMFS as part of the overall unit registry function.

**Figure 3. Relationship chain - ASX Managed Funds Service process**



\* Product Issuer Settlement Participant (unit registry)

The utilisation of CHESS is one of the key strengths of the AMFS. CHESS is a tried and tested system and its utilisation should enable a rigorous and daily transaction process. In fact, each of the steps of the application/redemption processes (as generalised at a high level in Figure 1) are likely to benefit from reduced costs through the straight through processing facilitated by the AMFS.

However, we do note, that the requirement for product manufacturers to engage a broker to maintain prices of the products on ASX PriceDisplay<sup>2</sup> may in some cases increase overall costs. From the interviews we conducted for our research (refer to Section 3.1.2 [Telephone interviews]), we understand that this cost will be low or even zero as the broker will weigh up this function against the overall sell-side relationship with the product manufacturer.

<sup>1</sup> ASX plans to re-brand the ASX Quote Display Board (QDB) to ASX PriceDisplay.

<sup>2</sup> ASX PriceDisplay will show the last struck application and redemption price for the funds quoted through the ASX Managed Funds Service (AMFS).

## 3. Research

### 3.1 Data collection

We sought information from 40 industry participants to estimate the costs of transacting managed funds (both pre and post AMFS). Of these 40 industry participants, we received information from 15. The types of industry participants contacted include:

- Brokers
- Custodians
- Dealer Groups
- Fund Managers
- Margin Lenders
- Platforms
- SMSF Administrators
- Unit Registries.

We sent a questionnaire to each of the industry participants and conducted in depth telephone interviews with willing recipients. The industry participants we sought information from were those we considered to be significant players in their respective markets. Our data collection processes are described in greater detail below. Appendix A (Questionnaire) contains an example of the questionnaire.

#### 3.1.1 Questionnaire

The questionnaire sought the following information:

- average monthly volume (numbers and value) of managed fund applications/redemptions
- current cost of processing managed fund applications/redemptions.

We received responses from representatives of each type of industry participant except for Custodians – see Section 3.1.2 (Telephone interviews).

#### 3.1.2 Telephone interviews

Following the distribution of the questionnaires, we contacted the stakeholders to ensure that the questionnaire had been received and to pursue more detailed information from those willing to provide it. We conducted 14 telephone interviews.

The telephone interviews consisted of a walk-through of the stakeholder's existing business processes to support managed fund transactions and the proposed AMFS. We also discussed their general thoughts on the AMFS. The more interesting topics raised are summarised below:

- A number of stakeholders indicated that they would pass on the majority of any cost savings they may enjoy from using the AMFS to investors.
- A number of brokers indicated that they did not currently deal with managed funds, but saw the introduction of the AMFS as an opportunity for them to begin transacting managed funds.

- A number of stakeholders indicated that there may be considerable development costs associated with accommodating the new CHESSE messaging with their systems. This concern was particularly strong amongst the brokers and appears to be due to their back office system suppliers quoting fairly high total costs. Our enquiries indicate that these quotes were for the total system upgrade and individual brokers would only be expected to pay a portion. Nonetheless, the issue is distracting them.
- The unit registries also expect to have to pay for these upgrades, but they did not appear to be concerned as they could see the longer term benefits in supporting the industry.
- A number of stakeholders initially did not appear to have a good grasp of the cost of the processes involved in transacting managed funds (both currently and through the AMFS). In particular, brokers and advisers did not generally see the time they spent completing complicated forms as a cost. However, after some prompting all were able to provide some estimates for our analysis.
- Advisers were uncertain as to their costs under AMFS because they would need to transact via brokers and there are no estimates of likely brokerage for these transactions. This impacts on the previous point, in that advisers may view their current approach as costless, but will have to pay brokerage under AMFS.
- One of the SMSF administrators believed that they would also benefit from the consolidated reporting that the AMFS would be able to facilitate (in terms of annual tax return preparation and daily portfolio administration).
- Some of the platform providers also indicated that they would benefit from this consolidated electronic reporting.
- One fund manager is currently geared towards institutional investors, but is keen on distributing to retail investors. The fund manager believes the AMFS would be a great entry point into the retail market.

During the telephone interviews we also uncovered a number of barriers preventing some stakeholders from participating in the research. The barriers included:

- A number of fund managers indicated that they did not readily have the requested information and referred us to their unit registry.
- The custodians we contacted indicated that they regarded the requested information as commercially sensitive and were, therefore, unwilling to complete the questionnaire. However, Custodian costs to fund managers are included in the analysis to the extent that they are included in the costs reported by the Registries and Responsible Entities.

### 3.2 Current transaction costs

Table 2 contains the cost information we obtained from the questionnaire and telephone interviews. We have used this information to calculate the current average transaction costs for the various industry participants with the averages based on transaction volumes.

**Table 2. Current transaction costs borne by transaction participants**

Transaction participant	Average costs per transaction	
	Application	Redemption
	(\$)	
Brokers, Custodians, Advisers, Platforms/SMSF Administrators	15.30	15.00
Fund Managers/Unit Registries/RE	27.50	30.50

The costs for Brokers, Custodians, Advisers, Platforms and SMSF Administrators for transacting managed funds are broadly similar and represent the costs of completing and lodging application forms. However, the average hides a wide variation in the costs which ranged from a low of \$11.00 per transaction to a high of \$45.00. This range reflects the degree of standardisation and automation of the processes undertaken by the separate transaction participants.

Although there may be separate costs associated with processes undertaken between the fund manager/RE and the unit registry, the cost incurred by the fund manager/RE is ultimately what is passed through to the investor. Therefore, for the purposes of estimating the overall transaction costs, we have used the costs aggregated at the fund manager level.

### 3.3 Potential transaction costs

Under the AMFS, transaction costs related to the ASX and CHESS will total \$11.10 per transaction (comprised of a \$5.00 Application/Redemption Fee on each side plus a \$1.10 CHESS Holding Statement Fee).

In addition to the ASX and CHESS related fees, there are also costs incurred by PISPs (Unit Registries). Unfortunately, the potential PISPs we interviewed were unable to put a dollar cost on their expected costs under the AMFS. However, anecdotally, they thought that the costs under the AMFS would be between 20% and 30% of their current costs. This equates to around \$6.50 per transaction. Therefore, we expect each transaction to generally cost around \$17.60 under the AMFS.

In the case where an adviser engages a broker to transact a managed fund investment there would also be brokerage costs in addition to the \$17.60 transaction cost identified above. None of the brokers we contacted were prepared to provide an indication of how much it may cost to process a managed fund transaction under the AMFS framework. However, we have assumed an additional nominal brokerage fee of \$10 charged to the adviser based on our knowledge of general brokerage costs and the processes involved under the AMFS. This cost is only evident in case study '4 Via Adviser' as the adviser will incur this cost on behalf of the investor. It is not evident in case study '2 Via Broker'.

Table 3 and Table 4 summarise the proposed AMFS fee schedules<sup>3</sup>.

**Table 3. Proposed fee schedule**

Type	Fee	Timing
Application/Redemption/Switch	\$5.00	Per transaction per side: Broker and PISP
Holding Adjustment	\$2.00	Per transaction: PISP
Conversion	\$0.90	Per transaction per side: Broker and PISP
<b>CHES fees to issuers</b>		
<i>Holding Statement</i>	<i>\$1.10</i>	Per transaction
<i>Notification of Banking Details Update</i>	<i>\$0.30</i>	As required
<i>Notification of TFN</i>	<i>\$0.30</i>	As required
<i>Notification of CHES Holder Update</i>	<i>\$0.30</i>	As required
<b>Issuer</b>		
New Issuer	\$15,000	Once off fee per new issuer
New Fund	\$5,000	Once off fee per new fund

**Table 4. Proposed annual fee schedule**

Funds under management bracket	Annual quotation fee	
	Base fee <sup>i</sup> (\$)	Bracket fee (bps) <sup>ii</sup>
Up to \$1,000m	0	1.50
\$1,000m to \$2,000m	150,000	1.00
\$2,000m to \$5,000m	250,000	0.50
\$5,000m to \$10,000m	400,000	0.25
Over \$10,000m	525,000	0.10

Table notes:

- i. The base fees are in respect of funds under management below the bracket.
- ii. The bracket fee applies to the funds under management within the bracket.

### 3.4 Other potential benefits

Apart from reduced transaction costs, industry participants (including SMSF administrators) can also expect to receive additional benefits that will flow from the use of CHES:

- The automation of processes should reduce the frequency of errors from manual processing and reduce the time, and hence cost to complete the transaction cycle.
- Centralised distribution of static information such as updates of investor records (HINs) through CHES to multiple unit registries will simplify the process for investors and deliver efficiencies to fund managers.

<sup>3</sup> We were provided with this fee schedule in a pdf document labelled *ASX Managed Funds Service, Summary for Rice Warner, 02/03/2012*.

- ASX Settlement Operating Rules for AMFS will deliver a consistent operating and settlement framework which will reduce risks and create greater certainty across the transaction chain for users.
- The AMFS provides managed funds with an efficient and cost effective distribution channel that will provide access to a much wider audience.

## 4. Case studies

### 4.1 Details

We have considered a number of different methods by which an investor may buy or sell managed investments. For each method we have estimated the transaction costs both under the current typical industry processes and by utilising the new AMFS.

The case studies considered include:

1. An individual buying or selling managed investments directly from the product manufacturer (under the AMFS process, we assume that the investor will transact via a broker or platform).
2. An individual buying or selling a managed investment via a broker.
3. An individual with investments on a platform buying or selling managed investments through a platform (note that Self-Managed Super Funds may use a platform either directly or via their administrator).
4. An adviser buying or selling units in a managed investment on behalf of a retail client direct from the product manufacturer (under the AMFS process, we assume that the adviser will transact via a broker or platform).
5. A custodian buying or selling a managed investment through a product manufacturer for an institutional client.

Table 5 identifies which intermediaries (if any) are involved in the respective case studies.

**Table 5. Case studies**

Case study	Adviser	Broker	Platform <sup>i</sup>	Custodian	Fund
1 – Direct to Fund	No	No <sup>ii</sup>	No	No	<u>Yes</u>
2 – Via Broker	No	<u>Yes</u>	No	No	<u>Yes</u>
3 – Via Platform	No	No	<u>Yes</u>	No	<u>Yes</u>
4 – Via Adviser	<u>Yes</u>	No <sup>ii</sup>	No	No	<u>Yes</u>
5 – Via Custodian	No	No	No	<u>Yes</u>	<u>Yes</u>

Table notes:

- i. This includes the use of platforms by SMSFs.
- ii. An investor/adviser who currently transacts directly with the fund manager is assumed to transact via a broker under the AMFS process.

## 4.2 Other costs

Our cost estimates concentrate on the costs that are incurred as a direct result of the underlying transaction processes. Focussing only on the costs of transaction provides insights into cost savings for industry participants through process automation (as facilitated by the AMFS). We, therefore, have ignored the non-transaction related costs of transacting managed funds, including:

- Initial fees charged per new issuer (under the AMFS only).
- Initial fees charged per new fund (under the AMFS only).
- Annual quotation fees based on funds under management (under the AMFS only).
- Costs associated with 'Anti-Money Laundering' and 'Know Your Client' processes and setting up of a Holder Identification Number (HIN) (under the AMFS it is expected that these costs will be incurred at the broker/platform stage).
- System development costs for industry participants e.g. systems upgrades to accommodate the new CHESS messaging (under the AMFS only).
- Platform 'shelf space' costs i.e. the costs a fund manager may incur to be put on the platform (under the current process only).

Note that our cost estimates focus on the costs of the transaction chain below the investor (that is, the cost of the transaction at the investor's initial contact point in the transaction process e.g. a platform, a broker, a custodian or a fund manager). While we recognise that investors may benefit from the elimination of paper applications/redemptions forms (and the associated time to complete the forms) we consider their own direct costs sufficiently small to ignore.

## 5. Transaction cost estimates

The results of the case studies are summarised in Table 6.

**Table 6. Case studies summary results**

Case study	Application costs			Redemption costs		
	Current	AMFS	Saving	Current	AMFS	Saving
	(\$)			(\$)		
1 – Direct to Fund	27.50	17.60	9.90	30.50	17.60	12.90
2 – Via Broker	42.80	17.60	25.20	45.50	17.60	27.90
3 – Via Platform	42.80	17.60	25.20	45.50	17.60	27.90
4 – Via Adviser	42.80	27.60	15.20	45.50	27.60	17.90
5 – Via Custodian	42.80	17.60	25.20	45.50	17.60	27.90

We make the following comments regarding these results:

- The costs identified are the aggregate costs incurred by the different participants and not the fees that would be charged to an investor investing via the nominated route. For instance an investor investing via an Adviser would not pay the costs identified directly. The Adviser's costs would be absorbed into the advice fee or commission charged and the fund manager level costs would be absorbed into the fund's administration fees as disclosed. This ensures that our estimates do not double count costs in the transaction chain.
- An investor/adviser who currently transacts directly with the fund manager is assumed to transact via a broker under the AMFS process.
- The costs for Brokers, Platforms, Advisers and Custodians for transacting managed funds are broadly similar and represent the costs of completing and lodging application forms. However, the average cost assumed in our estimate hides a wide variation in the costs which ranged from a low of \$11.00 per transaction to a high of \$45.00. This range reflects the degree of standardisation and automation of the processes undertaken by the separate transaction participants. For example, platforms and custodians would generally have more standardisation and controls around their processes, but the degree of automation varies across the transaction participants.
- None of the brokers we contacted were prepared to provide an indication of how much it may cost to process a managed fund transaction under the AMFS framework. However, based on our knowledge of brokerage costs in the market, we have included a nominal brokerage fee of \$10 charged to the adviser which is double the ASX fee to the broker. We believe this assumption is not unreasonable and note that a brokerage fee of say, \$15 or even \$20 might be incurred. If this were the case it would reduce the estimated potential savings.
- The reductions in aggregate transactions costs from using AMFS may not be passed on in full, but some of the participants we interviewed indicated that they would indeed pass on all cost savings via reduced fees.
- The case studies indicate that the AMFS will significantly reduce the overall transaction costs by at least 35%.

## 6. Industry wide cost savings

Estimating the cost savings that the industry could potentially gain from using the AMFS is not simple because there are no reliable sources of industry information regarding managed funds transaction volumes. However, by combining relevant industry statistics with our own knowledge of the market we are able to calculate a rough estimate.

In the sections below, we outline the general process we followed to estimate the potential cost savings from using the AMFS. Note our estimate does not consider the fee discounts available to 'Foundation Members'. We consider that excluding these fee discounts provides a better reflection of the potential long term cost savings from using the AMFS.

### 6.1 Number of transactions

Because of the lack of aggregate transaction volume data, we need to estimate the number of transactions for each channel from transaction value data which is available and reliable. To do this we have used the following sources of information:

- *Plan for Life Market Dynamics Report* – value of inflows and outflows for non-superannuation investments.
- *Rice Warner Personal Investment Projections 2011* – breakdown of types of assets on platforms and value of SMSFs on platforms (the breakdowns are based on data obtained from a significant platform provider).
- *APRA Quarterly Super Performance* – value of managed fund inflows and outflows for superannuation investments (the APRA statistics include a breakdown of the type of investments held by funds. We used this breakdown to estimate the value of managed funds transactions).
- *ATO SMSF Statistics* – value of managed fund inflows and outflows for SMSFs (also contains a breakdown of the type of investments held by SMSFs. We used this breakdown to estimate the value of managed funds transactions. We also combined this with information underlying the *Rice Warner Personal Investment Projections 2011* to avoid double counting transactions processed through platforms).
- RWA Questionnaire (refer to Section 3.1.1 [Questionnaire]) – monthly transaction data (number and value) for industry participants.

We are able to combine the information from these sources to estimate the value of managed funds transactions processed during the 2011 calendar year. Our estimates are shown in Table 7.

**Table 7. Managed funds inflows and outflows**

Market segment	Inflows	Outflows
	(\$M)	
Non-super – Retail	55,238	62,956
Super – Industry	18,746	16,018
Super – Public Sector	14,747	9,223
Super – Corporate	2,644	5,941
Super – SMSFs	7,093	4,538
Super – Retail	74,270	65,444
<b>Total</b>	<b>172,738</b>	<b>164,120</b>

Table 8 shows the range of average managed funds transaction values we received in response to our questionnaire.

**Table 8. Average annual transaction values**

Participant	Average value (\$)	
	Applications	Redemptions
Broker	10,000 to 15,000	10,000 to 15,000
Platform	35,000 to 50,000	35,000 to 50,000
Unit Registry	10,000 to 15,000	10,000 to 15,000
Adviser	10,000 to 15,000	10,000 to 15,000
Custodian	700,000 to 1,000,000	700,000 to 1,000,000

## 6.2 Transactions channels

Table 9 contains assumptions on the how managed funds are transacted within each market segment. These assumptions are our best estimate based on anecdotal evidence and our market knowledge.

**Table 9. Assumptions – transaction channels**

Market segment	Direct	Broker	Platform	Adviser	Custodian	Total
	(% )					
Non-super – Retail	20	10	50	20	0	100
Super – Industry	0	0	0	0	100	100
Super – Public Sector	0	0	0	0	100	100
Super – Corporate	0	0	0	0	100	100
Super – SMSFs	20	10	50	20	0	100
Super – Retail	0	0	50	0	50	100

## 6.3 Industry cost savings results

By dividing the estimated 2011 dollar value of managed fund transactions (Table 7) by the average transaction values from our questionnaire (Table 8) we are able to estimate the total number of managed funds transactions that were processed in 2011. We can then apply the transaction channel assumptions (Table 9) to the number of managed funds transactions to distribute the number of transactions between the various channels. The results of our estimates are shown in Table 10.

**Table 10. Estimated transaction volumes – 2011**

Channel	Annual number of transactions ('000)			
	Applications		Redemptions	
	Lower range	Upper range	Lower range	Upper range
1 – Direct to Fund	831	1,247	900	1,350
2 – Via Broker	416	623	450	675
3 – Via Platform	1,366	1,951	1,329	1,899
4 – Via Adviser	831	1,247	900	1,350
5 – Via Custodian	73	105	64	91
<b>All Channels</b>	<b>3,517</b>	<b>5,173</b>	<b>3,643</b>	<b>5,365</b>

Finally, by multiplying the number of transactions for each channel by the estimated cost savings for the respective channels (shown in Table 6) we are able to estimate the potential industry wide cost savings for the 2011 calendar year. The results of our estimates are shown separately for the lower and upper ranges of the transaction volumes in Table 11 and Table 12 (note the figures have been rounded).

**Table 11. Estimated industry wide cost savings lower range – 2011**

Channel	Estimated costs			
	Current	AMFS	Savings	Savings
	(\$M)			(%)
1 – Direct to Fund	50.3	30.5	19.8	39
2 – Via Broker	38.3	15.2	23.0	60
3 – Via Platform	119.0	47.4	71.5	60
4 – Via Adviser	76.5	47.8	28.7	38
5 – Via Custodian	6.0	2.4	3.6	60
<b>All Channels</b>	<b>290.1</b>	<b>143.3</b>	<b>146.6</b>	<b>51</b>

**Table 12. Estimated industry wide cost savings upper range – 2011**

Channel	Estimated costs			
	Current	AMFS	Savings	Savings
	(\$M)			(%)
1 – Direct to Fund	75.5	45.7	29.8	39
2 – Via Broker	57.4	22.8	34.5	60
3 – Via Platform	169.9	67.8	102.2	60
4 – Via Adviser	114.8	71.7	43.1	38
5 – Via Custodian	8.6	3.4	5.2	60
<b>All Channels</b>	<b>426.2</b>	<b>211.4</b>	<b>214.8</b>	<b>50</b>

We make the following comments regarding our estimates:

- We estimate that it cost the industry between \$290 million and \$430 million to process managed funds transactions in the 2011 calendar year.
- If the entire market utilised the AMFS we estimate that the industry wide transaction costs could potentially have halved to between \$145 million and \$215 million.
- We acknowledge that our estimates are an overstatement of the actual industry wide savings as it is unlikely that 100% of managed fund transactions would utilise the AMFS, but:
  - the analysis shows the total potential cost savings that could have been achieved in 2011
  - our estimates enable ASX to determine the savings for different scenarios with different proportions of transactions of each type moving to the AMFS
  - the analysis allows for sensitivity testing of the cost savings estimate to the adoption rate of the AMFS.

## Appendix A Questionnaire

Figure 4. Questionnaire – ‘Start’

### ASX Managed Funds Service Research

#### Notes

Rice Warner is conducting research on behalf of the ASX to assess the benefits to industry participants of utilising the new ASX Managed Funds Service. The aim of this survey is to gain a thorough understanding of the **current** costs associated with the application and redemption of managed fund investments.

There are separate tabs for the costs associated with the application (1A. Applications) and redemption (2A. Redemptions) of managed funds investments. Please complete the questions for each of these. There are links to the tabs that should be completed at the bottom of this page.

Information regarding the ASX Managed Funds Service may be found on:

[http://www.asx.com.au/documents/professionals/aqua\\_overview.pdf](http://www.asx.com.au/documents/professionals/aqua_overview.pdf)

Completion Date

#### Contact details

Name   
 Email Address   
 Telephone

#### Service Provider Type

Please indicate which service provider type best describes your area of operations:

Provider Type

InternalCode

[Go to Question 1A. Applications →](#)

[Go to Question 2A. Redemptions →](#)

Figure 5. Questionnaire – ‘Applications – Questions’

#### 1. Applications

**Please respond to the questions below as if you do not make use of to the ASX Managed Funds Service.**

1.1 **Statistics** - please provide the following statistics:

1.1.1 Typical average number of applications per month   
 1.1.2 Typical average total value of applications per month

1.2 **Transactions Costs** - please provide indicative costs associated with the processes below. Note:

- you may like to refer to the diagram of the process flow by clicking on the 'Go to diagram' link at the bottom of this section.
- not all of the processes may be applicable to your business, please indicate where this is the case with 'N/A'.
- we may not have covered all the processes you administer, you may accommodate these additional processes by inserting rows after 5. If you insert an additional process please indicate where this process takes place. For example, if the additional process comes after '2. Application Confirmation' then label the new row as '2B. Description of process'.
- the cost may be expressed either as a dollar cost per transaction or a percentage cost of the transaction value.

	\$ Cost	% Cost	Additional Comments
1. Application Order Placement	<input type="text"/>	<input type="text"/>	
2. Application Confirmation	<input type="text"/>	<input type="text"/>	
3. Transaction Settlement	<input type="text"/>	<input type="text"/>	
4. Notification of Unit Transaction	<input type="text"/>	<input type="text"/>	
← Insert additional rows here →			

Questions not yet completed

[Go to diagram →](#)

[Go to next question →](#)

Figure 6. Questionnaire – ‘Applications – Diagram’

1. Application Process

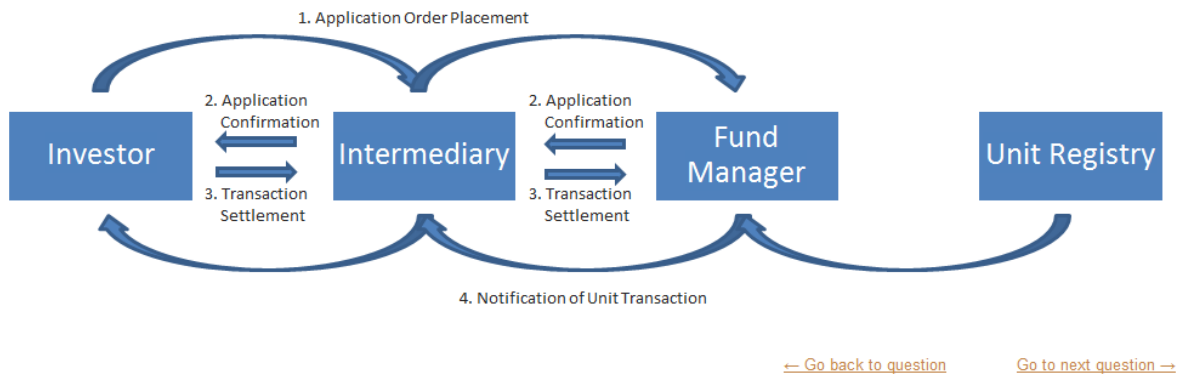


Figure 7. Questionnaire – ‘2A. Redemptions Questions’

2. Redemptions

Please respond to the questions below as if you do not make use of the ASX Managed Funds Service.

2.1 Statistics - please provide the following statistics:

- 2.1.1 Typical average number of redemptions per month
- 2.1.2 Typical average total value of redemptions per month

2.2 Transactions Costs - please provide indicative costs associated with the processes below. Note:

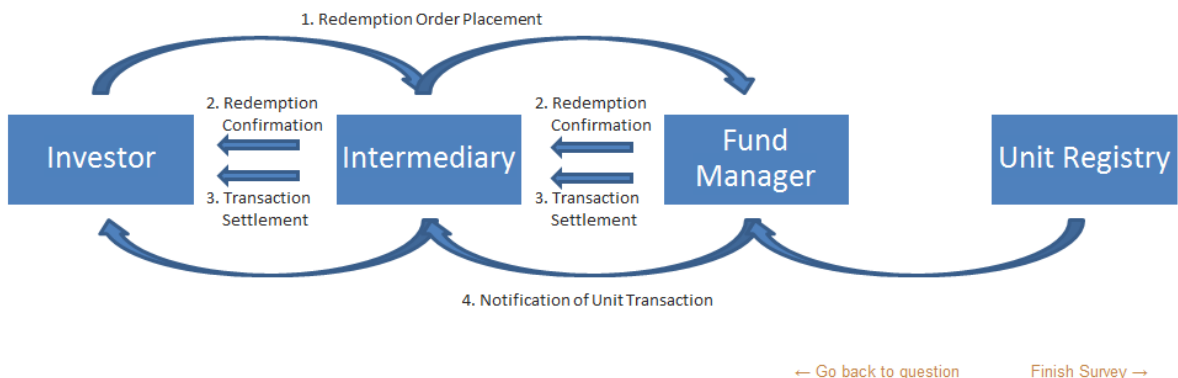
- you may like to refer to the diagram of the process flow by clicking on the 'Go to diagram' link at the bottom of this section.
- not all of the processes may be applicable to your business, please indicate where this is the case with 'N/A'.
- we may not have covered all the processes you administer, you may accommodate these additional processes by inserting rows after 5. If you insert an additional process please indicate where this process takes place. For example, if the additional process comes after '2. Redemption Confirmation' then label the new row as '2B. Description of process'.
- the cost may be expressed either as a dollar cost per transaction or a percentage cost of the transaction value.

	\$ Cost	% Cost	Additional Comments
1. Redemption Order Placement			
2. Redemption Confirmation			
3. Transaction Settlement			
4. Notification of Unit Transaction			
← Insert additional rows here →			

Questions not yet completed [← Go to previous question](#) [Go to diagram →](#) [Finish Survey →](#)

Figure 8. Questionnaire – ‘2B. Redemptions Diagram’

2. Redemption Process



**Figure 9. Questionnaire – ‘Finish’**

We are also interested in obtaining any public fee schedules which you apply to transactions involving managed funds.  
You can email the fee schedules separately to:

[jonathan.ng@ricewarner.com](mailto:jonathan.ng@ricewarner.com)

Thank you for completing the survey

Click this button to email your questionnaire

