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16 December 2022

The Advisory Committee  
Review of The Legislative Framework For Corporations And Financial Services Regulation  
The Australian Law Reform Commission  
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Dear Advisory Committee

**Regulation of Internally Managed Stapled Groups – supplementary submission**

We refer to our meeting with representatives of the Australian Law Reform Commission (**ALRC**) on 22 November 2022 to discuss our submission to the *Review of the Legislative Framework for Corporations and Financial Services Regulation*. A copy of our submission (the **Original Submission**), dated 20 September 2022, relating to the current regulation of internally managed stapled groups, is annexed to this document for your reference.

We thank you for your time at the meeting and for the opportunity to supplement our Original Submission in this **Supplementary Submission** by identifying the aspects of the Original Submission that we consider to be relevant to Topic B of the Terms of Reference issued to the ALRC and, in turn, the ALRC's *Interim Report B: Financial Services Legislation* dated September 2022 (**Interim Report B**).

As discussed during our meeting, in our view the current regulation of internally managed stapled groups applies inflexibly, without recognising or adapting to the unique features of these entities, and relies extensively on delegated legislation to address ad hoc issues that have been identified from time to time. The regulation of these entities provides a clear illustration of the key findings set out in Interim Report B. It is also a case study that highlights the potential benefits of the legislative model proposed in Interim Report B. We elaborate on these points in this Supplementary Submission.

We acknowledge that the scope of the ALRC's review is not to consider whether the substantive law by which corporations and financial services are regulated requires reform.<sup>1</sup> While aspects of our Original Submission relate to matters of policy, and seek substantive legal reform (for example, which aspects of Chapters 5C and 7 of the *Corporations Act 2001* (Cth) (the **Act**) should and should not apply to internally managed stapled groups), a significant focus of the Original Submission is on the legislative complexity that applies to this sector, which has resulted in regulation that has become 'unmanageably and unnecessarily complex'<sup>2</sup>.

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<sup>1</sup> Paragraph 1.16 of Interim Report B.

<sup>2</sup> Paragraph 1.10 of Interim Report B.



## ALRC key findings in the context of internally managed stapled groups

In Interim Report B, the ALRC identified the following three key findings:

1. The Act lacks a coherent legislative hierarchy in terms of the allocation of material between the Act and delegated legislation (**Key Finding One**).
2. The Act is not realising the potential benefits of delegated legislation in achieving 'regulatory flexibility to clarify technical detail and address atypical or unforeseen circumstances and unintended consequences of regulatory arrangements' as expressed in the Terms of Reference (**Key Finding Two**).
3. Notional amendments in corporations and financial services law, particularly in areas such as disclosure, have far exceeded their original role as a tool for embedding flexibility and fleshing out detail, resulting in a blurring of the roles of primary and delegated legislation (**Key Finding Three**).

### *Key Finding One*

As internally managed stapled groups typically comprise a public company stapled to a registered managed investment scheme, they are drawn into the provisions of the Act that regulate companies as well as registered schemes. These overlapping regulatory regimes are difficult to reconcile as a result of inconsistencies and functional differences between a company and an (externally-managed) registered scheme. This, in turn, gives rise to additional compliance costs, ultimately borne by securityholders, and complexity, and reduces the quality and navigability of the legislation. The following examples, relevant to internally managed stapled groups, are referred to in Schedule 1 of our Original Submission:

- Disclosure requirements – the need to comply with two separate disclosure regimes for a single offer (the prospectus regime in Chapter 6D of the Act for shares in a company and the product disclosure statement (**PDS**) regime in Part 7.9 of the Act for interests in the registered scheme), in circumstances where there are significant structural and content differences between these regimes.
- Application money accounts – as a consequence of needing to comply with both the prospectus and PDS regime, the need to maintain two separate trust accounts for holding application moneys in a capital raising, to which different rules apply.
- Meetings of securityholders – the need to comply with separate regimes for holding member meetings of the company and member meetings of the registered scheme, in circumstances where there are several important procedural differences between the two regimes.
- Financial reports and audit – the need to prepare audited financial reports in respect of both the public company and the registered scheme, in circumstances where the reporting regimes are not identical.

We share the ALRC's view that functionally equivalent financial products and services should be regulated in an equivalent way.<sup>3</sup> In respect of securities in internally managed stapled groups, our view (as set out in our Original Submission) is that these are functionally equivalent to securities in

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<sup>3</sup> Paragraph 2.5 of Interim Report B.



listed companies and should therefore be regulated accordingly – rather than being required to comply with two overlapping and often inconsistent legislative regimes.

The lack of a coherent legislative hierarchy means that, along with primary legislation, internally managed stapled groups are required to comply with a plethora of delegated legislation, including class order relief and individual relief issued by ASIC – often dealing with isolated issues that are challenging to reconcile given inconsistent terminology and conditions. As noted in our Original Submission:

- 'stapled securities' are referred to only 3 times in the Act and the accompanying regulations;
- there are at least 14 ASIC class orders / instruments that currently provide relief or modify the Act with respect to internally managed stapled groups (see Schedule 3 of our Original Submission); and
- each internally managed stapled group is required to apply to ASIC for individual relief at the time it is established, which modifies some (but not all) aspects of the Act to allow the stapled group to operate as a single economic entity.

#### *Key Finding Two*

As noted above, and in more detail in our Original Submission, ASIC commonly grants relief from aspects of Chapter 5C of the Act to responsible entities of internally managed stapled groups. This relief recognises that stapled groups operate as a single, integrated economic entity and that some aspects of Chapter 5C should be modified in their application to stapled groups. However, this relief is not class order relief that applies to all stapled groups in a consistent and predictable manner. Rather, each stapled group needs to apply for this relief, typically on its establishment, and the terms and conditions of the relief are not always consistent, having evolved over the years or having been adapted in response to specific requests by applicants. This gives rise to inefficiencies, including timing and cost, as well as an uneven playing field.

In our view, this is an example of the Act not realising the potential benefits of delegated legislation to achieving regulatory flexibility to clarify technical detail and address atypical or unforeseen circumstances.

Another example is the excessive use of class orders to address ad hoc issues that have been identified by, or raised with, ASIC from time to time in relation to internally managed stapled groups. Rather than effectively addressing atypical or unforeseen circumstances, many of these class orders create further confusion and increased complexity in understanding and applying the law. For example:

- Periodic statements – leaving aside the policy question as to whether internally managed stapled groups should even be required to produce periodic statements (see Schedule 1 of our Original Submission), when preparing them they are required to comply with section 1017D of the Act and Class Order [CO 13/1200] *Periodic statements relief for AQUA quoted and listed managed investment scheme issuer*, read together with ASIC Regulatory Guide 97 and ASIC Corporations (Disclosure of Fees and Costs) Instrument 2019/10170.
- Financial reports and audit – again, leaving aside the policy issues relating to the form of consolidated financial reports that internally stapled groups should be permitted to prepare (see Schedule 1 of our Original Submission), stapled groups are currently required to comply with two class orders (Class Order 13/1050 and ASIC Instrument 2015/838), but it is unclear



how they are intended to operate in parallel and how the inconsistencies between them are to be reconciled.

### *Key Finding Three*

The sheer number of class orders and relief instruments, as well as the individual relief, that apply to internally managed stapled groups (see above), points to a blurring of the roles of primary and delegated legislation in this sector.

These instruments listed in Schedule 3 of our Original Submission provide for extensive notional amendments to the Act, which, we agree, make the law 'deeply inaccessible': *'A person reading the Corporations Act or Corporations Regulations cannot be confident that the provision they are examining has effect as it is written.'*<sup>4</sup>

### **Proposed legislative model**

The legislative model proposed by the ARLC in Interim Report B (the **Proposed Model**) consists of the following elements:

1. a de-cluttered Act of Parliament, containing key obligations, prohibitions, powers, serious offences, significant civil penalties, and other provisions appropriately enacted only by Parliament ;
2. a Scoping Order (a single, consolidated legislative instrument) containing the vast majority of exclusions and exemptions from the Act and other detail necessary for adjusting the scope of the Act); and
3. thematically consolidated rules, which for convenience may be labelled 'rulebooks', containing prescriptive detail.

In our view, coupled with the substantive policy reform as discussed in our Original Submission (which we acknowledge is not within the ALRC's Terms of Reference), the Proposed Model would provide a legislative framework that could help to reduce the unnecessary regulatory complexity and inaccessibility that currently applies to internally managed stapled groups. The Proposed Model provides a clearer and more efficient regulatory hierarchy regime which, in our view, is capable of delivering the broad overarching policy objectives of the legislation while remaining flexible.

In particular, in the context of internally managed stapled groups, we envisage that:

- the Act (once 'de-cluttered') would contain the overriding obligations, prohibitions, powers, offences and penalties that embody the core policy of the regulatory regime, which would apply to all registered managed investment schemes, public companies and Australian financial service licensees, including those that form part of an internally managed stapled group. This would include the content that is currently in Chapter 7 and Chapter 5C of the Act;
- the 'Scoping Order' would be an important element of the Proposed Model for internally managed stapled groups, as it would be the mechanism for excluding stapled groups from aspects of the Act that would otherwise apply to it. Assuming the policy changes that we have sought in our Original Submission are accepted, the Scoping Order could cover the following matters that are discussed in Schedule 1 of our Original Submission:

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<sup>4</sup> Paragraph 8.26 of Interim Report B.



- Regulatory capital requirements – in our view, responsible entities of internally managed stapled groups that do not act as responsible entity of any other scheme should be exempt from the need to satisfy the financial requirements that apply to 'external' responsible entities.
  - Disclosure – in our view, the PDS regime should not apply to the issue of interests in the registered scheme component of internally managed stapled groups and, instead, the prospectus regime should apply to both the issue of shares in the public company and the issue of interests in the registered scheme.
  - Meetings of securityholders – as above, in our view, the meeting procedures for a registered scheme should not apply to an internally managed stapled group and, instead, the meeting procedures that apply to companies should also apply to the registered scheme component of an internally managed stapled group.
  - Periodic statements – in our view, listed internally managed stapled groups should be exempt from the requirement to provide periodic statements.
  - Compliance plans – in our view, internally managed stapled groups should be exempt from the requirement to prepare and comply with a compliance plan.
  - Financial statements and audit of licensee – in our view, the responsible entity of an internally managed stapled group that does not provide any financial services other than in that capacity should not be required to prepare standalone audited financial statements.
  - Design and distribution obligations – in our view, the design and distribution obligations should not apply to an interest in a registered managed investment scheme that is stapled to an ordinary share and quoted, as a stapled security, on the ASX.
- the 'rulebook' concept has the potential to address our specific recommendation in Schedule 1 of our Original Submission that the individual 'stapling relief' issued to internally managed stapled groups be replaced with an instrument or legislative provisions that enshrine the current 'stapling relief', but with the effect that it applies automatically to all stapled groups that fall within a specified definition. Ideally, there could be a rulebook that applies to internally managed stapled groups as an 'entity type'. Alternatively, and as envisaged in Interim Report B, the rulebooks would relate to particular themes (rather than entity types), such as disclosure, the AFSL regime, financial advice and client money, and within those rulebooks would clarify how the relevant rules apply to internally managed stapled groups.

The rulebook may be updated from time to time, and such updates would automatically extend to all stapled groups (subject to any transitional or grandfathering relief that may apply). The rulebook could also provide an opportunity to refresh, consolidate and standardise the array of class orders and instruments that currently apply to internally managed stapled groups. This could include the following class orders / instruments referred to in our Original Submission:



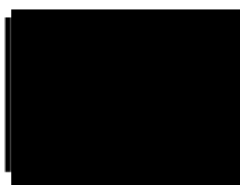
- the financial reporting relief that is currently contained in ASIC Class Order 13/1050 *Financial reporting by stapled entities and ASIC Corporations (Stapled Group Reports) Instrument 2015/838*;
- the unit pricing relief relating to the allocation of the price between components of a stapled group currently contained in ASIC Class Order 13/655 and ASIC Corporations *(Managed investment product consideration) Instrument 2015/847*;
- the relief that allows listed managed investment schemes (including stapled groups) to conduct on-market buy-backs, which is currently contained in ASIC Corporations *(ASX-listed scheme on-market buy-backs) Instrument 2016/1159*; and
- other class orders listed in Schedule 3 of our Original Submission which provide relief from certain aspects of the Act to internally managed stapled groups.

We envisage that the Proposed Model would apply, not only to Chapter 7 of the Act, but also to Chapter 5C (otherwise the benefits of the Proposed Model would be significantly more limited for responsible entities of registered schemes). Over time, other relevant aspects of the Act could be transitioned to the Proposed Model, including (in the context of our Original Submission) Chapter 2G (meetings) and Chapter 2M (financial reports) of the Act.

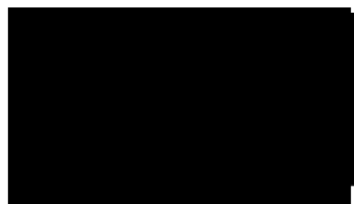
We also agree with the ALRC's view that, while the Proposed Model may reduce the need for individual relief, ASIC's ability to grant individual relief should be retained because it is a means to address atypical or unforeseen circumstances.

We would welcome the opportunity to discuss this Supplementary Submission with you in more detail if that would be helpful.

Yours sincerely



Belinda Ngo  
**Executive Director, Capital Markets**  
**Property Council of Australia**



Carl Bicego  
**Chair, Property Council Corporate**  
**Governance & Regulation Committee**  
**Group Head of Legal & Company Secretary**  
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## **Annexure – Original Submission**

### **CONFIDENTIAL**

20 September 2022

The Advisory Committee  
Review of The Legislative Framework for Corporations and Financial Services Regulation  
The Australian Law Reform Commission  
PO Box 12953  
George Street Post Shop  
Queensland 4003

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Dear Advisory Committee

### ***Regulation of Internally Managed Stapled Groups***

The Property Council, with the strong support of the co-signatories to this letter, welcomes the opportunity to participate in the Australian Law Reform Commission (ALRC) consultation process as part of the Review of the Legislative Framework for Corporations and Financial Services Regulation.

The Property Council of Australia champions the industry that employs 1.4 million Australians and shapes the future of our communities and cities. Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism and hospitality venues and more.

The Property Council supports simplification of Corporations and Financial Services Regulation where it benefits businesses and consumers while maintaining a strong financial sector and welcomes the Government's intention to pursue regular improvement and maintenance opportunities to ensure that the regulations remain current and fit for purpose.

In light of the terms of reference of the ALRC's review, underpinned by the Government's commitment to simplify financial services laws, the Property Council has attached a submission relating to the regulation of internally managed stapled groups that are listed on the ASX.

Internally managed stapled groups are a common structure for listed real estate groups in Australia. The structure has been used for several decades to give securityholders exposure to integrated real estate, through both the 'passive' side of the group (being the ownership of the real estate assets) and the 'trading' side of the group (being the business of managing and providing other asset-level services in relation to those assets).

We would like to draw the Advisory Group's attention to the fact that investment structures present practical examples of the broader issues identified in the Interim Report. Namely, the current regulatory framework for internally managed stapled groups demonstrates the unnecessarily



complex and overly prescriptive nature of the Australian financial services legislation and the difficulties arising from its administration.

The submission highlights clear examples of regulatory requirements imposed on internally managed stapled groups (which are not imposed on listed companies) that are incompatible with the way these groups function as an integrated, single economic entity (much like a listed company). These regulatory requirements create complexity and additional cost (borne by securityholders), without offering meaningful consumer protections within the spirit and intent of the relevant laws.

This submission was prepared by a working group of members drawn from the Corporate Governance and Regulation Committee, and included representatives from Mirvac, Scentre Group, Vicinity Centres, The GPT Group, Allens, and Goodman.

We would appreciate the opportunity to discuss these issues further as part of ALRC's consultation process for the Review of the Legislative Framework for Corporations and Financial Services Regulation. Please contact me on [REDACTED] or [REDACTED].

Yours sincerely

A black rectangular redaction box covering the signature of Belinda Ngo.

Belinda Ngo  
**Executive Director, Capital Markets**  
**Property Council of Australia**

A black rectangular redaction box covering the signature of Carl Bicego.

Carl Bicego  
**Chair, Property Council Corporate**  
**Governance & Regulation Committee**  
**Group Head of Legal & Company Secretary**  
**Goodman**





## **Property Council submission:**

### **ALRC Report 137 – Financial services legislation Interim Report A**

#### **Regulatory treatment of ASX-listed internally managed stapled groups**



## Submission in relation to ASX-listed internally managed stapled groups

We welcome the opportunity to make this submission to the Australian Law Reform Commission (**ALRC**) in response to ALRC Report 137 *Financial Services Legislation: Interim Report A* of November 2021 (the **Interim Report**).

The topic that we wish to raise in our submission relates to the regulation of **internally managed stapled groups** that are listed on the ASX. The internally managed stapled group, described in more detail below, is a common structure for listed real estate groups in Australia. The structure has been used for several decades to give securityholders exposure to integrated real estate groups, through both the 'passive' side of the group (being the ownership of the real estate assets) and the 'trading' side of the group (being the business of managing and providing other asset-level services in relation to those assets).

The Interim Report does not deal specifically with any particular type of investment structure, such as an internally managed stapled group. However, we think it is appropriate to make these submissions to the ALRC in light of the terms of reference of the ALRC's review of the legislative framework for corporations and financial services regulation, underpinned by the Government's commitment to simplify financial services laws.

In our view, there are clear examples of regulatory requirements imposed on internally managed stapled groups (which are not imposed on listed companies) that are incompatible with the way these groups function as an integrated, single economic entity (much like a listed company), without any fees paid to an externally owned manager. These regulatory requirements create complexity and additional cost (borne by securityholders), without offering meaningful consumer protections within the spirit and intent of the relevant laws.

By illustrating the unique issues faced by internally managed stapled groups, we also wish to present a practical example of the broader issues identified in the Interim Report, namely, the unnecessarily complex and overly prescriptive nature of the Australian financial services legislation and the difficulties arising from its administration.

Our submission is structured as follows:

- In **Section 1** we describe how internally managed stapled groups are structured, and how they differ from more traditional externally managed funds.
- In **Section 2** we describe the current regulatory regime that applies to internally managed stapled groups and, in broad terms, why we consider particular regulatory requirements to be unnecessary and incompatible with how these groups function. **Schedule 1** sets out in more detail each of the regulatory requirements that, in our view, should not apply to internally managed stapled groups, and our rationale for this view.
- Finally, in **Section 3**, we have described some limited ways in which ASIC has historically recognised the unique features of internally managed stapled groups and has provided some relief from the requirements of Chapter 5C of the *Corporations Act 2001* (Cth) (the **Act**). Also, by way of analogy, we have described recent reforms to the ASX Listing Rules that were made in recognition of the unique features of internally managed stapled groups and how they differ from more traditional externally managed funds. The very few references to stapled groups in the Act are also set out in this section for completeness.



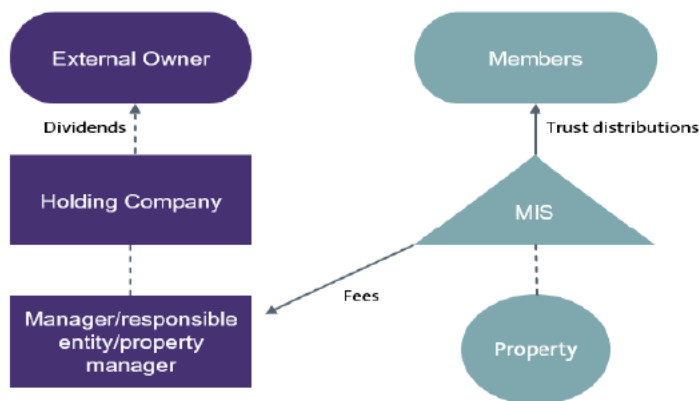
## 1. What is an 'internally managed stapled group'?

### 1.1 Traditional managed investment schemes – externally managed funds

To appreciate the unique nature of internally managed stapled groups, it is first necessary to understand, by way of comparison, the structure of a more traditional **externally managed fund**. An externally managed fund refers to a structure in which investors who seek to obtain investment exposure to real estate assets hold units in a trust (regulated as a registered managed investment scheme (**MIS**)) that is operated by an external manager (being the sponsor of the fund). The manager manages the MIS with a view to generating an investment return for the investors and is paid management fees out of the assets of the MIS for its services.

Under this model, the income generated by the MIS and the income generated by the manager is distributed to different pools of owners. In the case of the MIS, this is distributed to unitholders by way of trust distributions and, in the case of the manager, this is distributed to the shareholders of the manager by way of dividends. The distribution of dividends to the shareholders of the manager is ultimately a cost to the unitholders of the MIS, as these dividends arise from the payment of fees from the MIS to the manager.

The externally managed fund structure is illustrated in the diagram below:



This is a traditional form of investment fund, where a third-party manager is entrusted with the responsibility to manage investors' money, and therefore the full suite of regulatory protections under Chapter 5C (Managed Investment Schemes) and Chapter 7 (Financial Services and Markets) apply to the operator of the MIS (the responsible entity (RE)) and the MIS itself. Externally managed MISs may be listed or unlisted.

Our submission does not relate to these traditional externally managed MISs.<sup>5</sup>

### 1.2 Internally managed stapled groups

A succinct description of an internally managed stapled group is provided on the ASX website:

*Some A-REITs are stapled securities, simultaneously giving investors exposure to a real estate portfolio and a funds management company or property development business. A share in*

<sup>5</sup> Although it is not the subject of this submission, there are nevertheless inconsistencies between the regulation of companies and the regulation of registered schemes (whether they be internally or externally managed) that produce complexity and an uneven playing field. Many of these inconsistencies were identified in CAMAC's 2014 discussion paper on MISs. We would support CAMAC's general approach that the regulatory regime for managed investment schemes should be aligned with that for companies, unless there are compelling reasons for treating schemes differently (p136).



*an A-REIT with this structure usually consists of one unit in the property trust and one share in the company, 'stapled' together, so they cannot be traded separately. The trust holds the portfolio of assets, while the related company carries out the fund's management functions and manages any development opportunities.*

In contrast to externally managed MISs, the key differentiating feature of a typical internally managed stapled group is that the ownership of the manager<sup>6</sup> of the MIS is identical to the ownership of the MIS itself.

This is achieved by the 'stapling' of the shares in the manager (or of its holding company<sup>7</sup>) to the units in the MIS, to create the 'stapled securities' in the stapled group. Stapling is simply a restriction on transferring shares in the company without a corresponding transfer of units in the MIS, and ensures that each securityholder's interest in the manager is proportionate to its interest in the MIS (i.e., a securityholder who holds 5% of the units in the MIS will hold 5% of the shares in the manager (or its holding company)). The shares and units are jointly quoted on the ASX as a single stapled security and cannot be transferred separately.

As the ownership of the manager and the MIS are identical, we refer to this as being 'internally managed'. While internally managed stapled groups may be either listed or unlisted, it is more common for them to be listed.

One advantage for securityholders in an internally managed stapled group is that there are no fees paid to an external manager. While the income generated by the MIS is still distributed by way of trust distributions, and the income of the manager is distributed by way of dividends, they are distributed to the same pool of owners, in the same proportions.

In this way, the securityholders have economic exposure to both the manager (and benefit from the fee revenue earned by the manager and members of its group, including property and development managers) and the MIS (thereby benefiting from the investment income, such as rent, earned by the MIS), compared to an externally managed MIS where unitholders have exposure only to the MIS and all fees paid to the manager are a cost to securityholders.

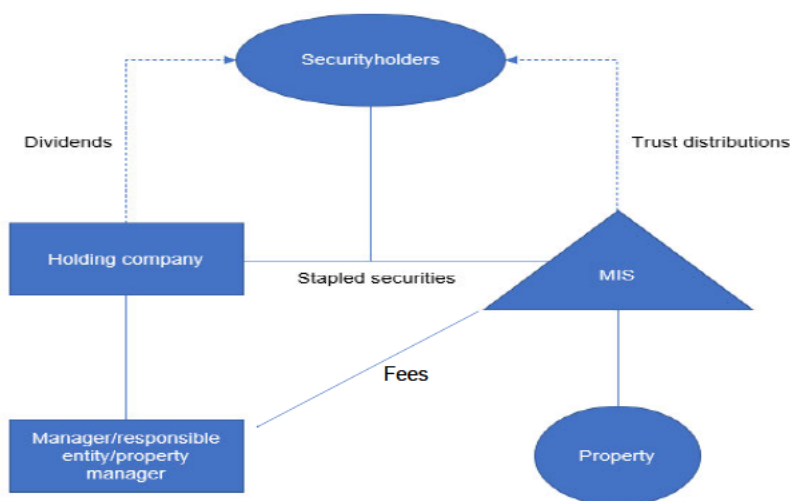
This internally managed structure is illustrated in the diagram below<sup>8</sup>:

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<sup>6</sup> In this submission 'manager' refers to the corporate entity that operates and manages the MIS and extends to the holding company of such manager and other wholly-owned subsidiaries of the holding company that provide other management services to the MIS, such as property management and development management services. This corporate side of a stapled group may also engage in a range of other activities, including property design, construction, development and management.

<sup>7</sup> In some stapled structures, the shares in the manager are held by a holding trust, rather than a holding company, so the internally managed stapled group comprises two or more stapled trusts. In this submission, we have referred to the more common stapled structure, comprising shares stapled to units, but the principles apply equally to internally managed stapled groups where the manager is owned by a holding trust rather than a holding company.

<sup>8</sup> As noted in the footnote above, an alternative (less common) internally managed stapled group structure is where the management entities are owned by a holding trust, rather than a holding company – so that the securityholders hold units that are stapled to each other, rather than a share stapled to a unit.



A stapled structure ensures there is a clear separation between passive rental activities (via property owned by the MIS) and active property management and trading activities (via the manager). This is necessary to achieve the appropriate tax characterisation of the two sources of income. However, from a securityholder's viewpoint this is a single investment in a group that owns and manages real estate assets, and functions in a way that is economically equivalent to an investment in a company.

As the securityholders own both the manager and the MIS, the protections that apply to externally managed MISs arising from the involvement of an external manager are not required in the same way for internally managed stapled groups.

Yet, other than some limited ad hoc relief that has been provided from time to time as set out in **Schedule 1**, this is not recognised in the legislation or regulatory regime, and those same regulatory requirements are imposed on internally managed stapled groups in the same way that they apply to externally managed MISs.

In **Schedule 2** to this submission, we have set out the names of the internally managed stapled groups that are currently listed on the ASX, based on publicly available information.

## 2. How do Ch 5C and Ch 7 apply to internally managed stapled groups?

Internally managed stapled groups are not subject to their own regulatory regime under the Act. Rather, the 'company' component is regulated like other companies, and the 'managed investment scheme' component is regulated like other managed investment schemes.

This has given rise to complexity, discrepancies in the regulation of the components of the stapled group and additional cost (borne by securityholders), without offering meaningful consumer protections. We have provided a list of specific issues and corresponding recommendations in **Schedule 1**.

To be clear, our recommendations are only for those internally managed groups:

- that are listed on the ASX; and
- where the relevant RE acts only as the responsible entity of the listed trust side of the stapled group and not for other managed investment schemes.

As noted above, internally managed stapled groups function in much the same way as a listed company; as securityholders have economic exposure to both the 'manager' and 'asset owner' sides of the property group, there is no fees or other costs to an external manager for managing



the assets of the group. Securityholders are in an economically equivalent position to shareholders in a company, as there is no separation between the ultimate ownership of the MIS and the ultimate ownership of the manager. The internally managed stapled group does not involve securityholders giving money to 'another person' (an external manager) to generate a financial return, because the 'other person' is owned by the securityholders themselves. Nevertheless, because the 'asset owner' side of the stapled group is typically set up as a unit trust (rather than a company), the regulatory regime that applies to managed investment schemes and REs under the Act is enlivened and needs to be complied with.

It is our submission that many of these regulatory requirements are not suitable for internally managed stapled groups, and do not provide any meaningful consumer protections for securityholders.

## 2.1 Regulation as an MIS under Chapter 5C

As internally managed stapled groups comprise a company stapled to a unit trust, with securityholders that include retail investors, the unit trust is characterised as a 'managed investment scheme' for the purposes of the Act and is subject to the same regulation under Chapter 5C as MISs generally. On a purely definitional basis this makes sense. However, from a policy perspective, many of the requirements under Chapter 5C of the Act do not sit comfortably with an internally managed stapled group, as they have been designed to protect members of MISs from the actions of external managers / REs whose interests often do not align with those of the members.

By way of example, *ASIC Corporations (Disclosure of Fees and Costs) Instrument 2019/1070* (also referred to as **RG 97**) places obligations on the REs of MISs to disclose their fees and costs in a certain way that enables investors to compare fees and costs of similar MISs, so that investors can make an informed investment decision. This is not relevant in the context of internally managed stapled groups; to the extent that any fees are charged to the MIS by the manager, they will ultimately be returned to the securityholders (less operating expenses) through the payment of dividends by the manager, meaning there is no fee leakage.

In this way, internally managed stapled groups (including the unit trust component) have more similarities with public companies rather than with externally managed MISs and the need to regulate the RE separately to the MIS is reduced. The stapling of the manager and the MIS ensures that the interests of both are aligned as the owners are the same. Because of this, some aspects of the MIS regime are, in our view, entirely irrelevant in relation to internally managed stapled groups and, in fact, become a detriment to the securityholders due to increased compliance costs.

For the purposes of this submission, we have identified in **Schedule 1** those aspects of Chapter 5C that we think should not apply to internally managed stapled groups. We have not proposed that internally managed stapled groups should be exempt from Chapter 5C entirely – by removing the need for the trust component of the stapled group to be registered as an MIS. This is mainly in the interests of expediency, because we acknowledge that such a change would have far-reaching implications, and potentially unintended consequences under other legislative regimes, such as tax and stamp duty laws and the ASX listing rules.

## 2.2 Regulation under Chapter 7

A registered MIS is required to be operated by an RE, being a public company that holds an Australian Financial Services Licence (**AFSL**) (section 601FA of the Act). For this reason, the RE of the registered scheme MIS that forms a component of an internally managed stapled group is required to hold an AFSL. While, again for the purposes of expediency, we have not proposed that REs of registered schemes forming part of an internally managed stapled group should be exempt from the requirement to hold an AFSL, in our view there are examples of obligations



that apply to AFSL holders that we do not think should apply to internally managed stapled groups. These are also set out in **Schedule 1**. One example is the regulatory capital requirements that apply to REs. While these make sense where the RE is owned by an external party, the regulatory capital requirements do not serve any similar benefit where the RE is owned by the members of the MIS.

Chapter 7 of the Act also regulates the disclosure obligations that apply to the registered MIS component of an internally managed stapled group. While the registered MIS must comply with the product disclosure statement (**PDS**) obligations, the company component of the stapled group must comply with the prospectus obligations. The need to comply with both regimes creates complexity, inconsistencies and additional compliance costs that are ultimately borne by the securityholders. This is discussed in more detail in **Schedule 1**.

Unlike other financial products that are regulated by Chapter 7 of the Act, the MIS component of an internally managed scheme is a “vanilla” product that merely provides unitholders with a distribution from the rental and capital returns of the underlying real estate.

### **3. Previous recognition of the unique features of internally managed stapled groups**

#### **3.1 ASIC – standard 'stapling relief'**

In some respects, the differences between internally managed stapled groups and externally managed MISs have been recognised by ASIC.

ASIC commonly grants relief from aspects of Chapter 5C of the Act to REs of internally managed stapled groups at the time they are established, recognising that the components of a stapled group operate as a single economic entity. In Regulatory Guide 136 *'Funds Management – Discretionary Powers'* (**RG 136**), ASIC has stated that such relief is granted to facilitate the operation and management of the stapled group, rather than the component parts that make up the stapled group, and that it considers 'there is no detriment to members given they are also members of the other component parts of the stapled group'.

Factors that ASIC may take into account when deciding whether to grant relief for stapled securities include:

- whether all interests in the registered scheme remain stapled with shares in a company (or interests in another scheme) on a one-for-one basis, and are traded as stapled securities; and
- whether the stapled security holders own all of the shares in the stapled company and no benefit leaks from the stapled structure for the benefit of others.

The standard 'stapling relief' that is typically granted by ASIC relates to the following aspects of Chapter 5C of the Act:

- s601FC(1)(c) and 601FC(1)(e) – to allow an RE to consider the interests of the members or to use information, having regard to them being stapled security holders;
- s601FD(1)(c), 601FD(1)(d), 601FD(1)(e) and 601FE(1)(a) – to allow officers or employees to consider the interests of the members or to use information or their position, having regard to them being stapled security holders; and
- s601LC – to allow an RE to give a financial benefit to itself or a related party out of scheme property, where there is no change to the overall property of the stapled group.

#### **3.2 ASX Listing Rules**

Similarly, following industry submissions to the ASX in 2019, the ASX updated the ASX Listing Rules to distinguish between internally managed stapled groups and externally managed MISs.



A new definition of 'internally managed' was introduced, as follows:

*a trust is internally managed if:*

- (a) the RE of the trust is a wholly-owned child entity of the trust;*
- (b) the trust forms part of a stapled group and the RE of the trust is also a part of the stapled group; or*
- (c) the trust forms part of a stapled group and the RE of the trust is a wholly-owned child entity of another entity that is also a part of the stapled group,*  
*and ASX has not determined that the trust should be treated as an externally managed trust for the purposes of the Listing Rules.*

The distinction between internally and externally managed trusts is relevant in various parts of the ASX listing rules including admission criteria and the operation of listing rule 10.1 (which applies to transactions between a listed entity and certain related parties).

Prior to these reforms, there were similar concerns that these aspects of the ASX listing rules did not appropriately distinguish between internally and externally managed funds, and resulted in the rules applying to internally managed stapled groups in ways that were unworkable or produced unintended consequences.

We would be happy to share with you copies of the industry submissions that were made to the ASX in 2019, if that would be helpful.

### **3.3 References to stapled securities in the Corporations Act**

Stapled securities are referred to only 3 times in the Corporations Act and its accompanying regulations, as set out below:

- **(Replacement PDSs: Subdivision DA of Division 2, part 7.9 Corporations Act: sections 1014G – 1014L)** As there is a 'replacement prospectus' regime for companies, but no corresponding 'replacement PDS' regime for financial products, a specific replacement PDS regime was added by the *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* to allow for the situation where the scheme interests are part of a stapled securities structure; the regime allows a stapled entity to issue a replacement PDS for the scheme interests when it issues a replacement prospectus for the company securities;
- **(Statement of Advice not required for small investments: regulation 7.7.09A Corporations Regulations)** There is a specific reference to stapled securities to clarify that the \$15,000 threshold applies to the total value of the stapled securities (not only one component).
- **(PDS regime for simple MIS: regulation 7.9.11S Corporations Regulations)** There is a carve-out from this PDS regime for stapled securities.

In each of these references, the intention is to achieve regulatory parity with the company side of the staple, or to prevent an unintended outcome. We would welcome the opportunity to discuss with you in more detail any aspect of our submission, including any of our specific observations and recommendations in **Schedule 1**.





#### 4. Definitions

We have used the following defined terms in this submission:

- **Act** means the *Corporations Act 2001* (Cth).
- **ASIC** means the Australian Securities and Investments Commission.
- **CAMAC** means the (former) Corporations and Markets Advisory Committee.
- **Interim Report** means the ALRC Report 137 *'Financial Services Legislation: Interim Report A'* of November 2021.
- **MIS** means a managed investment scheme within the meaning of section 9 of the Act.
- **PDS** means a product disclosure statement within the meaning of Part 7.9 of the Act.
- **RE** means a responsible entity of a registered MIS.
- **Registered MIS** means a MIS that has been registered under Chapter 5C of the Act.



## Schedule 1 – Issues and Recommendations

Issue	Description	Recommendation	Impact on securityholders
<p>Stapling relief</p>	<p>As noted above, ASIC commonly grants relief from aspects of Chapter 5C of the Act to REs of internally managed stapled groups in respect of the following aspects of Chapter 5C of the Act:</p> <ul style="list-style-type: none"> <li>• s601FC(1)(c) and 601FC(1)(e) – to allow an RE to consider the interests of the members or to use information, having regard to them being stapled security holders;</li> <li>• s601FD(1)(c), 601FD(1)(d), 601FD(1)(e) and 601FE(1)(a) – to allow officers or employees to consider the interests of the members or to use information or their position, having regard to them being stapled security holders; and</li> <li>• s601LC – to allow an RE to give a financial benefit to itself or a related party out of scheme property, where there is no change to the overall property of the stapled group.</li> </ul> <p>A stapled group is required to apply for this relief, and it is granted by ASIC on a case by case basis, typically upon the establishment of the stapled group.</p> <p>In our view, it would be preferable for the standard relief to apply automatically where the relevant conditions are satisfied, without the need to apply for individual relief.</p>	<p>We recommend that the individual relief-based approach with respect to Chapter 5C of the Act should be replaced with either an ASIC instrument, or legislative provisions in the Act, that enshrine the standard stapling relief described in RG 136. This would ensure that consistent relief (and conditions of relief) apply automatically to all stapled groups that fall within a definition set out in the instrument or in the legislation. The instrument or legislation (the <b>New Stapling Relief</b>) may be updated from time to time, and any such updates would automatically extend to all stapled groups (subject to any transitional or grandfathering relief that may apply).</p> <p>If New Stapling Relief is introduced, as we have recommended, it would provide an opportunity to refresh and consolidate (where appropriate) all forms of relief that ASIC has granted with respect to stapled groups. Currently such relief is contained in various relief instruments, and uses inconsistent terminology. Examples of such relief include:</p> <ul style="list-style-type: none"> <li>• the financial reporting relief that is currently contained in ASIC Class Order 13/1050 <i>Financial reporting by stapled entities</i>;</li> </ul>	<p>Securityholders would benefit from this recommendation as internally managed stapled groups would no longer need to go through the process of applying to ASIC for individual relief (for a fee), nor run the risk of the relief application being denied which would make operating the internally managed stapled group untenable. Securityholders would also benefit from the increased efficiencies that would result from consistent relief applying to all stapled groups.</p> <p>We do not consider there would be any adverse effect on securityholders if this recommendation were to be implemented, particularly as this relief is already typically granted to internally managed stapled groups on a case by case basis.</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>Individual relief gives rise to inefficiencies, including timing, cost and inconsistency issues. The individual stapling relief that has been issued historically is not always consistent, and the conditions of the relief often differ between stapled groups – for example, the standard conditions have changed over time. This has meant that some stapled groups may need to comply with additional conditions, even though their structure is equivalent to other stapled groups that are not subject to those same conditions, resulting in an uneven playing field.</p>	<ul style="list-style-type: none"> <li>the financial reporting relief that is currently contained in <i>ASIC Corporations (Stapled Group Reports) Instrument 2015/838</i>;</li> <li>the unit pricing relief relating to the allocation of the price between components of a stapled group currently contained in ASIC Class Order 13/655 and <i>ASIC Corporations (Managed investment product consideration) Instrument 2015/847</i>; and</li> <li>the relief that allows listed MISs (including stapled groups) to conduct on-market buy-backs, which is currently contained in <i>ASIC Corporations (ASX-listed Scheme On-market Buy-Backs) Instrument 2016/1159</i>.</li> </ul> <p>In <b>Schedule 3</b> we have listed the ASIC class orders and instruments that currently provide relief for stapled groups, or otherwise relate to stapled groups.</p>	
<p>Regulatory capital requirements</p>	<p>As the holder of an AFSL, the RE of a registered MIS is required to meet certain minimum financial requirements, as set out in Appendix 2 of ASIC Regulatory Guide 166 <i>Licensing: financial requirements</i> and more fully in ASIC Class Order 13/760 <i>Financial requirements for responsible entities and operators of IDPSs</i>. These requirements typically comprise:</p> <ul style="list-style-type: none"> <li>A tailored cash needs requirement (including cash flow projections covering a period of at least 12 months);</li> </ul>	<p>We recommend that REs of internally managed stapled groups be exempt from the need to satisfy the financial requirements that apply to 'external' REs under RG 166. This exemption should only apply if the RE only acts as RE of the internally managed stapled group, and does not act as RE of any other scheme</p> <p>As the internally managed stapled group operates as a single economic entity, it is difficult to see how the policy objectives underlying the financial requirements are appropriate for internally managed stapled groups,</p>	<p>Securityholders would benefit from this recommendation through reduced compliance costs and could employ their capital more efficiently.</p> <p>We do not consider there would be any adverse effect on securityholders if this recommendation were to be implemented as the regulatory financial requirements provide no meaningful benefit to the securityholders.</p>



Issue	Description	Recommendation	Impact on securityholders
	<ul style="list-style-type: none"> <li>• A tailored audit requirement;</li> <li>• A net tangible assets ('NTA') requirement, which incorporates a liquidity requirement; and</li> <li>• Where applicable, a surplus liquid funds requirement.</li> </ul> <p>The policy rationale for these financial requirements is described in RG 166 as being to ensure that:</p> <ul style="list-style-type: none"> <li>• licensees, such as REs, have sufficient financial resources to conduct their business in compliance with the Act, and to meet their operating costs;</li> <li>• there is a financial buffer that decreases the risk of disorderly or non-compliant wind-up, or transition to a new RE, if the business fails; and</li> <li>• there is alignment between the interests of the RE and the interests of the scheme members by ensuring that the RE is an entity of substance and that the shareholders of the RE have sufficient equity in the business to have a real incentive to ensure its success – in other words, there are incentives for owners of the licensee to comply with the Act through risk of financial loss.</li> </ul> <p>These requirements currently apply without any modification to REs within an internally managed stapled group, even though the RE is (ultimately) owned by the same securityholders who hold interests in the scheme. In our view, it is difficult to see how the policy objectives of</p>	<p>given that the economic owners of the RE are also the economic owners of interests in the scheme. Accordingly, the financial requirements provide no benefit to the securityholder. They do, however, increase the costs incurred by the internally managed stapled group due to increased compliance expenses and inefficient capital management (due to the need to meet the NTA requirement at that entity level).</p>	<p>As internally managed stapled groups are typically listed on the ASX, the adequacy of the group's working capital to achieve its stated business objectives is a matter that is assessed by the ASX on the entity's admission to the official list (as part of the assessment of its structure and operations), and on an ongoing basis through continuous disclosure and periodic reporting obligations to the market.</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>these financial requirements are appropriate for internally managed stapled groups, given the economic owners of the RE are also the economic owners of interests in the scheme. There is no 'external' RE that needs to be sufficiently capitalised to minimise the risks to members of the scheme arising from the failure of that external RE.</p> <p>Of course, this assumes that the RE does not operate any other schemes.</p>		
Disclosure	<p>There are currently two parallel disclosure regimes under the Act: the offer of 'securities' (such as shares in a company) is governed by the prospectus regime in Chapter 6D of the Act, whereas the offer of 'financial products' (including interests in a registered MIS) is governed by the product disclosure statement (<b>PDS</b>) regime under Part 7.9 of the Act.</p> <p>As an internally managed stapled group typically comprises one or more shares in a company stapled to one or more interests in a registered scheme, an offer of stapled securities must satisfy both the prospectus and the PDS requirements. This was noted by the ALRC in paragraph 9.44 of the Interim Report. In practice, this is done by issuing a combined prospectus and PDS.</p> <p>There are significant structural and content differences between a prospectus and a PDS, and the legislation does not contemplate that there may be entities (such as stapled groups) that need to comply with both regimes for</p>	<p>We recommend that internally managed stapled groups be exempt from the PDS regime and, instead, be required to comply with the prospectus regime in relation to both the company and the MIS components of the stapled group.</p> <p>As the securityholders have an interest in both the company and MIS components of a stapled group, there is no acquisition of a 'financial product' in the way that is contemplated by the PDS regime; rather, there is an investment in an entity, with no fees or entrustment of funds with a third party manager. Accordingly, we think the prospectus regime is the appropriate disclosure regime and should apply to both the shares and the interests in the MIS as a single economic entity.</p> <p>The prospectus regime imposes a broad overarching obligation on the issuer to disclose all the information that investors and their professional advisers would reasonably require to make an informed assessment of:</p>	<p>Securityholders would benefit from this recommendation because the disclosure to new investors under the prospectus regime would be clearer, more concise and more effective than under a combined prospectus / PDS document. The disclosures would be 'fit for purpose' and there would be no need to include mandatory disclosures (e.g. fees and costs template) that are not relevant to stapled groups, and create complexity and confusion for investors.</p> <p>There would also be reduced compliance costs.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented as the additional disclosure requirements</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>a single offer. The PDS content requirements are designed for 'financial products', including investment products, where an investor is making an investment or otherwise entrusting funds with a third party manager. There are prescriptive content requirements, including in relation to fees and costs, to enable investors to compare similar products before they make an investment decision. On the other hand, the prospectus regime contemplates an investment in a company and imposes less prescriptive disclosure obligations and adopts a more principles-based approach to disclosure.</p> <p>As a result, a combined prospectus and PDS is often a cumbersome document and some of the mandatory content (e.g. fees and costs disclosure in a prescribed table format) is confusing for investors who are investing in an internally managed stapled group, which operates as a single economic entity akin to a company.</p> <p>There is a single reference to stapled securities in the PDS provisions of the Act, and that is to allow issuers of stapled securities to issue a 'replacement PDS' in relation to the stapled MIS, in circumstances where a 'replacement prospectus' is issued for the stapled shares (section 1014G). This section is required because there is otherwise no equivalent concept of a 'replacement PDS' in the Act. Apart from this, there has been no attempt in the</p>	<ul style="list-style-type: none"> <li>the rights and liabilities attaching to the securities offered; and</li> <li>the assets and liabilities, financial position and performance, profits and losses and prospects of the body that is to issue (or issued) the shares, debentures or interests.</li> </ul> <p>We think this standard is more suitable for a stapled group, than the corresponding overriding disclosure obligation under the PDS regime, being to disclose any information that might reasonably be expected to have a material influence on the decision of a reasonable person, as a retail client, whether to acquire the product.</p>	<p>set out in the PDS regime provide no additional benefit to securityholders in an internally managed stapled group.</p>



Issue	Description	Recommendation	Impact on securityholders
<p>Application money accounts</p>	<p>legislation (or by ASIC) to align the disclosure regimes for the components of a stapled group.</p> <p>As a consequence of needing to comply with both the prospectus regime and the PDS regime (see above), issuers of stapled securities also need to maintain two separate trust accounts for holding application moneys in a capital raising. For the company side of the stapled group, application moneys need to be deposited and held in a trust account under section 722 of the Act until the shares are issued; for the MIS side of the stapled group, application moneys need to be deposited and held in a trust account under section 1017E of the Act until the units are issued. The rules do not allow a single trust account to be used.</p> <p>ASIC has, on occasion, historically granted case by case relief to allow a single trust account to be used by an issuer of stapled securities.</p>	<p>If, as recommended above, the prospectus regime is to apply to both the company and MIS components of a stapled group, it would follow that the trust account requirements in section 722 of the Act should apply to application moneys received in respect of the stapled securities, and a single account can be used.</p>	<p>Securityholders would benefit from the reduced compliance costs.</p>
<p>Meetings of securityholders</p>	<p>Similar to the need to comply with separate disclosure regimes for the company and MIS components of a stapled group, a stapled group also needs to comply with separate regimes for holding member meetings on the company and MIS components of the stapled group.</p> <p>Although the meeting regimes are broadly similar, there are several important differences between meetings of shareholders and meetings of MIS members, which make</p>	<p>We recommend that internally managed stapled groups should be required to comply with the meeting requirements that apply to public companies, for both the company and the MIS components of the stapled group. They should not be required to comply with the MIS meeting requirements.</p>	<p>Securityholders would benefit from the reduction in costs and complexity that would result from a single set of meeting rules applying to the stapled group.</p> <p>The requirement for an annual general meeting (<b>AGM</b>) applies only to company meetings, so securityholders would benefit from the AGM requirements applying to the stapled group as a whole (although, in</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>it difficult to hold concurrent meetings of stapled securityholders.</p> <p>Some of the discrepancies between meetings of shareholders and meetings of MIS members were identified by CAMAC in its 2014 discussion paper on <i>The establishment and operation of managed investment schemes</i> (sections 8.3 in relation to the chair of a meeting; 8.4 in relation to voting restrictions; 8.5 in relation to proxy voting; 8.6 in relation to the adjournment of meetings; and 8.7 in relation to other inconsistencies, such as the time for determining the percentage of votes held by members and the timing and manner of a poll).</p> <p>Another example relates to voting on a poll: in respect of public companies (subject to the company's constitution) on a poll, each member has 1 vote for each share they hold (section 250E of the Act). However, in respect of MISs, a member has one vote for each dollar of value of the total interests they have in the MIS (section 253C of the Act). There is also a discrepancy in the notice period required for a members' meeting (28 days for a listed company – s249HA) and 21 days for a listed registered scheme – s252F).</p> <p>These discrepancies between meetings of shareholders and meetings of MIS members give rise to unnecessary complexity and ambiguity.</p>		<p>practice, a stapled group would comply with this in any event).</p>





Issue	Description	Recommendation	Impact on securityholders
<p>Periodic statements</p>	<p>Pursuant to Section 1017D of the Act and Class Order [CO 13/1200] <i>Periodic statements relief for AQUA quoted and listed managed investment scheme issuer</i>, read together with ASIC RG 97 and ASIC Corporations (Disclosure of Fees and Costs) Instrument 2019/1070, listed managed investment schemes (including internally managed stapled groups) must provide periodic statements to securityholders setting out prescribed information, which includes:</p> <ul style="list-style-type: none"> <li>• opening and closing balances for the reporting period;</li> <li>• the termination value of the investment at the end of the reporting period;</li> <li>• details of transactions during the reporting period;</li> <li>• any increases in contributions during the reporting period;</li> <li>• return on investment during the reporting period (on an individual basis if reasonably practicable to do so and otherwise on a fund basis);</li> <li>• details of any change in circumstances affecting the investment that has not been notified since the previous periodic statement;</li> <li>• fees and costs information, disclosed in a manner that complies with ASIC RG 97 and ASIC Corporations</li> </ul>	<p>We recommend that listed internally managed stapled groups be exempt from the requirement to provide periodic statements.</p> <p>We consider the periodic statement regime to be inappropriate for listed internally managed stapled groups for the following reasons:</p> <ul style="list-style-type: none"> <li>• the disclosure required to be made in the periodic statements is not useful and is confusing and potentially misleading for securityholders;</li> <li>• securityholders in listed stapled groups already receive information relevant to their holding and transactions in holding statements and transaction confirmations, and stapled groups are subject to continuous disclosure and periodic reporting obligations in relation to the performance of the stapled group;</li> <li>• the compliance costs associated with issuing periodic statements outweighs any potential benefit; and</li> <li>• there is no appropriate policy reason for treating listed internally managed stapled groups differently to listed companies.</li> </ul>	<p>Securityholders would benefit from this recommendation as there would be cost savings if internally managed stapled groups were not required to comply with the periodic statement requirements.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented, given the extent of information that is required to be provided to securityholders under the ASX Listing Rules and in holding statements / transaction confirmations in relation to their investment.</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>(Disclosure of Fees and Costs) Instrument 2019/1070; and</p> <ul style="list-style-type: none"> <li>information about the performance of the scheme relative to the investment objectives of the scheme.</li> </ul> <p>We acknowledge that submissions have previously been made to ASIC as to why the periodic statement disclosure requirements are not appropriate for listed MIS. We continue to hold the view that the information required to be provided to securityholders in periodic statements is of limited use to them and, having regard to the information that they already receive as securityholders in an ASX listed entity, the information in a periodic statement can be confusing and potentially misleading. Nevertheless, ASIC's clear position, as set out in Report 373 <i>Response to submissions on CP 196 Periodic statements for quoted and listed products and relief for AQUA products</i>, is that the information in a periodic statement does serve an important function because it is intended to provide information about investors' holdings at an individual level for the entire reporting period, and other important information about their investment and the MIS that they invest in.</p> <p>Even if that position is accepted for externally managed listed MISs, the position of internally managed stapled groups can be distinguished, and there is a stronger need for relief for these entities. Investors in externally managed</p>		



Issue	Description	Recommendation	Impact on securityholders
	<p>MISs are investing in a fund that is managed by a third party manager – there is therefore the need to monitor the performance of the external manager during the reporting period is heightened because of the potential conflicts between the manager and the members of the MIS.</p> <p>As explained above, a securityholder in an internally managed stapled group is in a different position. The securityholder has invested in an integrated group listed on the ASX and has exposure to both the trading and investment components of the listed entity. In this way, it is no different to a listed company in which a securityholder may have invested. The main purpose of periodic reports is to enable investors to monitor the value of their investment and any fluctuations arising as a result of fees and costs. Fees and costs are not relevant for a stapled securityholder, as there is no fees and costs to an external manager – to the extent that fees are charged, the securityholder will receive the benefit of those fees through dividends paid by the company side of the stapled group. The disclosure of “fees” in periodic statements is misleading as they are not paid by the investor.</p> <p>Investors in listed stapled groups can obtain current valuations of their securities from the ASX and information providers.</p>		



Issue	Description	Recommendation	Impact on securityholders
	<p>Holders of stapled securities will receive opening and closing balances, as well as transaction details, in their holding statements issued by the share registry (albeit not covering a specific reporting period).</p> <p>Investors draw little distinction between listed internally managed stapled groups and listed companies. Listed companies are not required to prepare these periodic statements. We agree with the position adopted by CAMAC in its 2014 discussion paper that the regulatory regime for MIS should be aligned with that for companies, unless there are compelling reasons for treating schemes differently. We submit that there is no appropriate policy reason to treat listed internally managed stapled groups differently to listed companies in relation to periodic statements.</p>		
<p>Financial reports and audit</p>	<p>Internally managed stapled groups are required to prepare audited financial reports in respect of both the manager / its parent company (as a listed company) and the MIS components of the stapled group pursuant to Chapter 2M of the Act. However, the reporting regimes of listed companies and MIS are not identical, which presents a practical challenge for internally managed stapled groups to produce audited financial reports which comply with both regimes.</p> <p>For example, under s300(12) the annual directors' report for an MIS must include details of:</p>	<p>We recommend that internally managed stapled groups be exempt from the specific additional content requirements that apply to the annual reports of MISs.</p> <p>In our view, much of the additional information required to be specifically included in the financial report is either covered in a standard financial report or irrelevant having regard to the structure of internally managed stapled group. For example, the requirement to set out the fees paid to the RE and its associates is irrelevant. Similarly, as the MIS is listed, there would typically be no withdrawals from the MIS.</p>	<p>Securityholders would benefit from this recommendation as there would be cost savings for internally managed stapled groups if they were not required to comply with two different financial content regimes.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented as the additional information required to be set out in an MIS' annual report is</p>



Issue	Description	Recommendation	Impact on securityholders
	<ul style="list-style-type: none"> <li>fees paid to the RE and its associates out of scheme property;</li> <li>the number of interests in the scheme held by the RE and its associates;</li> <li>the number of interests in the scheme issued;</li> <li>withdrawals;</li> <li>the value of scheme assets and the basis for such valuation; and</li> <li>the number of interests in the scheme on issue.</li> </ul> <p>The annual directors' report for a listed company must include additional specific information, as set out in section 300A.</p> <p>While relief is available to allow internally managed stapled groups to prepare consolidated financial reports on a whole-of-group basis<sup>9</sup>, this relief does not apply to the content requirements. As such, the consolidated financial reports for a stapled group must still meet the content requirements for listed companies and MISs.</p> <p>Furthermore, the existing relief that allows stapled groups to prepare consolidated financial reports on a whole-of-group basis does not eliminated the need to prepare</p>	<p>In addition, we recommend that the existing relief that allows stapled groups to prepare consolidated financial reports on a whole-of-group basis<sup>10</sup>:</p> <ul style="list-style-type: none"> <li>should be broadened such that the entities in the stapled group that are not the 'deemed parent' for the purposes of the consolidated accounts should not be required to prepare their own financial statements – currently, Class Order 13/1050 only allows an exemption from the preparation of accounts for the 'deemed parent' and one of the conditions of the relief is that the other members of the stapled group are required to prepare financial reports for the relevant year or half-year in accordance with Chapter 2M of the Act. In our view, the need to prepare additional financial reports (in addition to the consolidated financial reports for the stapled group) dilutes the benefits provided by the class order relief; and</li> <li>should be redrafted and simplified to clarify how Class Order 13/1050 and ASIC Instrument 2015/838 are intended to operate in parallel and to ensure that there are no inconsistencies or areas of overlap between the two forms of relief.</li> </ul>	<p>already covered in the report for public companies or is irrelevant for internally managed stapled groups.</p> <p>Also, the current requirement to prepare separate financial statements for the 'non-parent' members of the stapled group does provide any meaningful information to securityholders and other stakeholders given that this information is already consolidated within the accounts of the stapled group; rather, it creates confusion and an additional cost ultimately borne by securityholders.</p>

<sup>9</sup> See ASIC Class Order 13/1050 *Financial reporting by stapled entities* and ASIC Corporations (Stapled Group Reports) Instrument 2015/838.

<sup>10</sup> See ASIC Class Order 13/1050 *Financial reporting by stapled entities* and ASIC Corporations (Stapled Group Reports) Instrument 2015/838.



Issue	Description	Recommendation	Impact on securityholders
	<p>separate accounts for each of the other issuers of the stapled group.</p>		
<p>Financial statements and audit of licensee</p>	<p>Pursuant to section 989B of the Act, a financial services licensee must, in respect of each financial year, prepare a true and fair profit and loss statement and balance sheet. As the operator of a registered scheme, each RE must have an AFSL and is therefore required to comply with section 989B.</p>	<p>It is possible for an RE of a stapled group to avail itself of the consolidated reporting relief through the provision of cross-guarantees in accordance with ASIC Corporations (Wholly -Owned Companies) Instrument 2016/785 (<b>Reporting Relief Instrument</b>). If the RE is not also the RE of a registered scheme that is not part of the stapled group, the potential liability of any such guarantee will not count as a liability for the purposes of the RE's NTA requirements (see above).<sup>11</sup></p> <p>The relief, however, does not extend to relief under section 989B, meaning that the RE of an internally managed stapled group would still need to prepare standalone audited financial statements.</p> <p>We recommend that internally managed stapled groups be permitted to include the RE of the stapled MIS in their consolidated financial reports, rather than being required to prepare standalone reports for the RE, where they availed themselves of consolidated reporting relief through the provision of cross-guarantees in accordance with the Reporting Relief Instrument. This assumes that the RE does not act as RE for any other scheme.</p>	<p>Securityholders would benefit from this recommendation as there would be cost reductions if internally managed stapled groups were not required to prepare standalone financial statements for the RE, where they have availed themselves of the consolidated reporting relief.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented as the requirement for REs in stapled groups to prepare standalone financial reports provides no meaningful benefit to securityholders, given that it is not external to the stapled group.</p>

<sup>11</sup> See ASIC Class Order 13/760 *Financial requirements for responsible entities and operators of IDPSs*, definition of 'adjusted liabilities', para (e)(ii).



Issue	Description	Recommendation	Impact on securityholders
		<p>In our view, an RE within an internally managed stapled group should not be required to prepare standalone audited financial reports as this does not provide any additional benefit to the securityholders, as the RE is embedded within the stapled group and not external to it.</p>	
<p>Compliance plans</p>	<p>Like all registered MIS, the registered scheme that forms part of an internally managed stapled group is required to prepare and comply with a compliance plan for the scheme. While there are limited prescribed content requirements for a compliance plan (see section 601HA), ASIC has produced extensive guidance on what a compliance plan ought to contain (see Regulatory Guide 132 <i>Funds Management: Compliance and oversight</i>).</p> <p>The compliance plan is required to set out 'adequate measures that the RE is to apply in operating the scheme to ensure compliance with the Act and the scheme's constitution' (section 601HA). This principle assumes that the RE is an external party, with owners separate to the securityholders, that is required to operate the scheme in a manner that is consistent with law and minimises the risk of loss to securityholders.</p>	<p>We recommend that internally managed stapled groups be exempt from the requirement to prepare and comply with a compliance plan.</p> <p>In our view, compliance plans do not provide meaningful benefits for the security holders of an internally managed stapled group and increase compliance costs for the group.</p> <p>The policy reason for compliance plans is to establish an effective compliance system and play a key role in protecting investors and promoting investors' interests. While this makes sense for externally managed MISs, in the context of internally managed stapled group it is not relevant. As there is common ownership of the RE and the MIS in an internally managed staple group, the same need does not arise for a compliance system that protects and promotes the interests of members of the MIS by imposing compliance obligations on the RE (which is not external to the stapled group).</p>	<p>Securityholders would benefit from this recommendation as there would be cost reductions if internally managed stapled groups were not required to prepare and implement measures to comply with a compliance plan.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented as compliance plans do not provide meaningful benefits to the securityholders in an internally managed stapled group.</p> <p>As an ASX listed entity, an internally managed stapled group would have compliance arrangements and operational policies in place, but these will not relate <i>only</i> to the registered scheme component of the business. In this sense, a compliance</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>In an internally managed stapled group, these same risks do not apply, because the members of the scheme are also the (indirect) owners of the RE.</p> <p>Like all listed entities, an internally managed stapled group will have compliance arrangements and operational policies in place, but these will not relate <i>only</i> to the registered scheme component of the business. In this sense, a compliance plan for the registered scheme does not provide a meaningful compliance framework for managing the overall risks of the stapled group.</p>	<p>Furthermore, by imposing an obligation to have a compliance plan that relates to the operation of the scheme, rather than the operation of the stapled group as a whole, the focus is only on one component of the stapled group (being the scheme). This can result in a 'tick the box' approach to compliance, where procedures are implemented in order to satisfy the statutory requirements, even though the risks that those procedures are intended to manage are often not relevant to internally managed stapled groups – e.g. ensuring that scheme property is held separately to the property of the RE (which assumes an external RE), unit pricing, redemptions, etc (which are not relevant to listed stapled groups).</p> <p>The asymmetrical compliance burden has been exacerbated by the broadened mandatory breach reporting regime in the Corporations Act. For example, if a RE becomes aware it has not complied with its compliance plan, it will be in breach of its obligations under s601FC(1)(h) of the Corporations Act (duties of responsible entity) and must report this to ASIC (a breach of s601FC(1)(h) contravenes s601FC(5) and incurs a civil penalty under s1317E which is deemed to be significant and must be reported to ASIC). This outcome is disproportionate given compliance plans do not</p>	<p>plan for the registered scheme does not provide a meaningful compliance framework for managing the overall risks of the stapled group.</p>





Issue	Description	Recommendation	Impact on securityholders
<p>Industry funding levy</p>	<p>Given their unique features, internally managed stapled groups have attracted two overlapping levies under the ASIC Supervisory Cost Recovery Regulations (2017) (the <b>Regulations</b>) – namely, the levy that applies to the 'listed corporations' subsector and the separate levy that applies to the 'responsible entities' subsector.</p> <p>Listed stapled property groups are currently being charged two relevant levies under the Regulations:</p> <ul style="list-style-type: none"> <li>• a listed corporations levy based on market capitalisation under regulation 19; and</li> <li>• a responsible entities levy (<b>RE levy</b>) based on assets under management under regulation 35.</li> </ul> <p>We understand that the industry model can result in an entity being charged levies in respect of more than one sub-sector. For example, an entity that is both an RE and an IDPS operator would be subject to levies under each of those categories. This is appropriate as those regulated activities relate to distinct sets of clients and distinct pools of assets.</p> <p>By contrast, it is our view that the application of both of the levies described above to listed stapled property groups is distinguishable because both levies:</p>	<p>address the compliance risks of the stapled group when taken as a whole and do not apply to companies.</p> <p>We recommend that listed internally managed stapled groups are only charged the listed corporation levy. In part this assumes the recommendations above are adopted to disapply some of the duplicated regulation applying to MISs and REs.</p> <p>In the alternative, currently listed internally managed stapled groups cannot adjust the listed corporations levy charged in the invoices issued to them, as the market capitalisation and fee amounts are pre-populated fields. This could be remedied to allow listed stapled property groups to adjust their market capitalisation so that it is referable only to the shares in the listed company and disregards the units in the trust (which should not be taken into account in calculating the listed corporations levy).</p>	<p>In our view, securityholders would benefit from this recommendation as internally managed stapled groups would have reduced industry funding levy commitments.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented.</p>



Issue	Description	Recommendation	Impact on securityholders
	<ul style="list-style-type: none"> <li>are calculated, in large part, by reference to the same pool of assets (that is, the value of the assets of the MIS is used as the reference point for calculating both levies) – which results in double-counting. This is contrary to the policy objective of the Cost Recovery Implementation Scheme, as evidenced by various carve-outs to avoid similar examples of double counting, such as that contained in regulation 35(3); and</li> <li>relate to functions / services provided to the same group of securityholders (being the holders of stapled securities – that is, the shareholders of the listed corporation who are also the unitholders of the listed MIS operated by the RE).</li> </ul> <p>ASIC's current methodology for calculating the listed corporations levy has resulted in listed stapled groups being charged twice in respect of the same assets, and in total levies that are disproportionately high when compared to:</p> <ul style="list-style-type: none"> <li>ASX-listed companies with a similar market capitalisation (because listed stapled groups are also charged an RE levy calculated by reference to assets that have already been taken into account for the listed corporations levy); and</li> <li>other REs with a similar level of assets under management because listed stapled groups are also</li> </ul>		



Issue	Description	Recommendation	Impact on securityholders
	<p>charged a listed corporations levy calculated by reference to their market capitalisation (which takes into account the assets that have already been taken into account for the RE levy).</p>		
<p>Design and distribution obligations ('DDO')</p>	<p>As internally managed stapled groups contain a registered MIS, they are required to comply with the design and distribution obligations set out in Part 7.8A of the Act, including the preparation of a target market determination and other ongoing obligations relating to the distribution of interests in the MIS. We note that this is only relevant for the MIS side of the staple as the design and distribution regime does not apply in respect of fully paid ordinary shares in Australian companies (excluding listed investment companies) ie, the company side of the stapled group.</p> <p>As discussed above, from the perspective of investors, an internally managed stapled group is treated as a single economic entity. An investor is not investing in the MIS part of the stapled group separately from the company side – it is a single, integrated investment in the stapled group.</p> <p>We understand that the policy reason for not excluding MISs related to the third party fee arrangements for REs. As explained above this is not relevant for listed internally managed stapled groups.</p>	<p>We recommend the design and distribution obligations set out in Part 7.8A of the Act be amended to exclude from their scope an interest in an MIS that is stapled to an ordinary share and quoted, as a stapled security, on the ASX.</p>	<p>In our view, securityholders would benefit from this recommendation as the design and distribution regime when applied to internally managed stapled groups is confusing and potentially misleading. There would also be cost savings for the stapled group if this compliance obligation was removed.</p> <p>We do not consider there would be any adverse effect to securityholders if this recommendation were to be implemented.</p>



Issue	Description	Recommendation	Impact on securityholders
	<p>The policy reason for excluding fully paid ordinary shares from the design and distribution regime was due to such shares being fundamental to corporate fundraising and not a complex financial product. In our view, an interest in an MIS that is stapled to an ordinary share should be excluded from the regime for the same reason. The interest in the MIS cannot be traded separately from the share, and securityholders cannot hold a unit in the MIS unless they also hold a stapled share.</p>		



**Schedule 2 – Listed internally managed stapled groups<sup>12</sup>**

Name	ASX Code
360 Capital Group	TGP
APA Group	APA
Abacus Property Group	ABP
Aspen Group	APZ
Arena REIT	ARF
Charter Hall Group	CHC
Cromwell Property Group	CMW
Dexus Property Group	DXS
GDI Property Group	GDI
Goodman Group	GMG
Growthpoint Properties Australia	GOZ
GPT Group	GPT
Home Property Investments	HPI
Ingenia Communities Group	INA
Lendlease Group	LLC
Mirvac Group	MGR
National Storage REIT	NSR
Scentre Group	SCG
SCA Property Group	SCP
Stockland	SGP
Transurban Group	TCL
Vicinity Centres	VCX
Waypoint REIT	WPR

<sup>12</sup> Based on information from [A-REITs \(asx.com.au\)](https://asx.com.au) as at the date of this submission.



### Schedule 3 – ASIC class orders and instruments that provide relief for, or otherwise relate to, stapled groups

Title	Topic
ASIC Class Order [13/1050] <i>Relief to enable combination or consolidation of stapled entities</i>	Financial reporting
ASIC Corporations (Stapled Group Reports) Instrument 2015/838	Financial reporting
ASIC Corporations (ASX-listed schemes on-market buy-backs) Instrument 2016/1159	On-market buy-backs
ASIC Class Order [13/1200] <i>Periodic statements relief for AQUA quoted and listed managed investment scheme issuer</i>	Periodic statements
ASIC Class Order [13/655] <i>Provisions about the amount of consideration to acquire interests and withdrawal amounts not covered by ASIC Corporations (Managed investment product consideration) Instrument 2015/847</i>	Unit Pricing
ASIC Corporations (Managed investment product consideration) Instrument 2015/847	Unit Pricing
ASIC Class Order [13/760] <i>Financial requirements for responsible entities and operators of investor directed portfolio services</i>	Financial requirements (definitions only)
ASIC Class Order [03/184] <i>Employee share schemes</i>	Employee share schemes
ASIC Class Order [14/1000] <i>Employee incentive schemes: Listed bodies</i>	Employee incentive schemes
ASIC Corporations (Non-Traditional Rights Issues) Instrument 2016/84	Disclosure
ASIC Corporations (Sale offers that do not need disclosure) Instrument 2016/80	Disclosure
ASIC Corporations (Application form requirements) Instrument 2017/241	Disclosure
ASIC Corporations (Share and interest purchase plans) Instrument 2019/547	Disclosure
ASIC Class Order [04/671] <i>Disclosure of on-sale securities and other financial products</i>	Disclosure