

Draft updates to INFO 230

This document sets out the proposed updates to the sections in Information Sheet 230 *Exchange traded products: Admission guidelines* ([INFO 230](#)) titled 'Product-naming considerations' and 'Other types of ETPs'. It does not set out the whole text of INFO 230.

These updates reflect the proposals in Consultation Paper 356 *ETP naming conventions* (CP 356).

There may also be minor consequential changes to other parts of INFO 230 where the term 'managed fund' is used to indicate a differentiation with exchange traded funds (ETFs).

Product-naming considerations

Licensed exchanges should verify that issuers have adopted appropriate product names and descriptions in marketing their ETPs to retail investors. Retail investors frequently trade ETPs through execution-only brokers and may not receive a PDS. As a result, appropriate labelling helps them better understand the key characteristics of these products. We consider that product names that more clearly reflect the nature of the product can help alert retail investors to the type of product and associated risks.

Licensed exchanges should satisfy themselves that the product is generally true to label and supports the naming conventions in their rules or conditions of admission: see Table 1 and Table 2. There may be complexities in the way a product operates – for example, where a passive fund invests in an active fund from overseas. Where licensed exchanges become aware of an inconsistent labelling or marketing approach, they should take action with the issuer. A licensed exchange should adopt a 'look through' approach to the holdings of the underlying asset to determine appropriate naming, such as when an ETP's underlying asset is a collective investment vehicle (e.g. feeder fund).

Licensed exchanges should encourage naming that helps retail investors clearly differentiate between the different types of risks associated with the different types of ETPs. In particular, the difference in risks between:

- ETPs that are structured as collective investment vehicles (such as managed investment schemes) and other ETPs
- passive and active investment strategies
- ETPs that have material exposure to risks that are more complex than direct long-only exposure to the underlying assets (e.g. where the fund employs levered or inverse positions, has payoffs that are not one-for-one with the underlying assets, or where the exposure is obtained through derivatives).

The naming guidelines in Table 1 and Table 2 are to be applied to the title of the ETP, descriptions in the PDS and any marketing material. Issuers and licensed exchanges should take steps to ensure that relevant labels are included whenever the product name is used.

We expect that licensed exchanges will have rules that implement the primary labels.

The secondary labels for ETFs outlined in Table 2 are good practice guidelines to be applied at the discretion of licensed exchanges. Licensed markets that admit ETFs and structured products may, at their discretion, also apply their own secondary labels. For example, for structured products, this could identify exchange traded commodities (ETCs) separately from exchange traded notes (ETNs), or could reflect the composition of the structured product (e.g. shares or derivatives). Where a secondary label is used, the fund must be marketed as having an investment strategy consistent with the label.

Where a primary or secondary label is applied, it should appear at the end of the product name. If a secondary label is applied, it should appear in round brackets. For example, 'The ABC ETF', 'The XYZ ETF (Active)', 'The LMN Structured Product'.

Table 1: Product-naming guidelines – Primary labels (product structures)

Product label	Factors to consider when used
Exchange Traded Fund or ETF	An ETP that is a collective investment vehicle (such as registered managed investment schemes and CCIVs).
Structured Product	An ETP that is a security or derivative that gives financial exposure to the performance of underlying instruments.

Table 2: Product naming guidelines – Secondary labels (ETF risks and strategies)

Product label	Factors to consider when used
Active	<p>The term 'Active' should be used in the name of any product that is required to use the term ETF and:</p> <ul style="list-style-type: none"> • does not employ a passive investment strategy (i.e. to buy and sell investments based on an active investment strategy), or • discloses their full portfolio holdings on a delayed basis under internal market making or material portfolio information disclosure models.
Complex	<p>The term 'Complex' should be used in the name of any product that is required to use the term ETF and the investment strategy:</p> <ul style="list-style-type: none"> • uses debt or leverage to make a financial investment • includes an inverse exposure • uses short selling • uses derivatives, other than for exchange rate hedging purposes, to gain material economic exposure to affect the underlying investment strategy, or • otherwise meets the hedge fund criteria in Regulatory Guide 240 <i>Hedge funds: Improving disclosure</i> (RG 240).

Other types of ETPs

Smart beta or rules-based products

Smart beta, factor, multi-asset and quantitative or rules-based ETPs seek to provide additional diversification or return enhancements relative to traditional market capitalisation benchmarks.

In certain situations, a collective investment vehicle with one of these types of strategies should use the 'Active' label. For example, when the collective investment vehicle:

- makes investment decisions on a discretionary basis (i.e. outside the constituents and weightings determined by the quantitative or rules-based process), or
- is not sufficiently transparent about its portfolio selection methodology and does not provide full portfolio disclosure on a daily basis.

Where the ETP uses one of these types of investment strategies but is not a collective investment vehicle, it should be labelled 'Structured Product'.

Leveraged or inverse ETPs

The use of leveraged or inverse ETPs (1X, 2X, 3X) with daily resets has not currently been permitted. This is because:

- these products are unable to exactly replicate the specified multiples of an index over more than one day (because of the compounding effect of the daily reset function)
- there were concerns that retail investors would fail to understand the implications of the product being held for a period longer than one day.

Other types of ETPs that provide material leveraged or inverse exposure to an underlying reference asset are able to be considered for admission. However, the target range for the leveraged or inverse performance of the ETP must be clearly identified in its PDS. The exposure of these ETPs is reset where its exposure deviates from its prescribed range. These types of ETPs must be labelled 'ETF (Complex)' or 'Structured Product', as appropriate.