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5 February 2010

Product Rationalisation Project
Corporations and Financial Services Division
The Treasury

Via Email: prodrationalisation@treasury.gov.au

Dear Sir,

SUBMISSION – PRODUCT RATIONALISATION OF MANAGED INVESTMENT SCHEMES AND LIFE INSURANCE PRODUCTS

We refer to the above Proposal Paper and thank you for the opportunity to provide feedback regarding this issue.

Background

Principled Mortgage Investments Ltd currently holds an Australian Financial Services (“AFS”) Licence (233081) authorising it to issue interests in named managed investment schemes specifically related to mortgages. Our company is not authorised to deal in any other securities.

Our company is also an investor in managed investment schemes run by other licensees.

Policy Perspective

We support an initiative to provide a defined mechanism to rationalise legacy products. We recommend a high priority should be given to this initiative to ensure it is in place as soon as possible. We believe this will provide meaningful benefits to the industry, and indirectly to consumers.

Specific Comments Regarding Proposals

After reviewing the proposals set out in the Treasury paper, we make the following specific comments:

1. It does not make sense to require a product to have been withdrawn from public offer for two years to meet the Legacy Product Test while requiring a five year period for the Taxation Relief Test. Treasury has suggested in this paper that it will

consider a legacy product as genuine for the purposes of allowing the rationalisation to occur when the Legacy Product Test and the No-disadvantage Test are satisfied. This should also apply to the Taxation Relief Test.

It is likely that higher costs will be incurred to monitor products for two different timeframes, and this cost will be passed on to consumers. If the RE elects not to apply the Taxation Relief Test in order to reduce administration costs, the consumers incur the cost of the taxation consequences. We submit that two years is appropriate for both tests.

2. The requirement to lodge a Product Rationalisation Proposal (“PRP”) with ASIC “with sufficient time for ASIC to consider and comment prior to [it] being sent to members” is a retrograde step back to the pre-AFS regime of exposure periods for prospectuses. This will increase the onus on ASIC to review each proposal in detail, and as ASIC will not be able to control the volume of proposals being submitted at any one time, there is a risk that such a system may stretch the resources of ASIC unnecessarily.

Recommended Change

We recommend a notification process be used in a similar manner to the FS88 for a new PDS. This would require the RE to lodge a notice to ASIC to say it has:

- (a) Prepared a PRP;
- (b) Met the Legacy Product Test, No-disadvantage Test and the Taxation Relief Test (if required);
- (c) Obtained the independent expert’s report.

ASIC may, if considered appropriate, require the RE to submit the proposal for ASIC review, but ASIC will not be obliged to do so. This system does not reduce ASIC’s capability to review each PRP, but does give ASIC the ability to manage its capacity more efficiently.

3. Option A – Member Objection Model set out at paragraph 3.3.1 of the Treasury paper indicates that members be given a 30 day period in which to lodge a formal vote or objection.

Our experience of sending disclosure documents to members is that there are inevitably questions from members seeking clarification of the disclosures. In order to ensure that all members receive the same information before making their decision, we recommend:

- (a) Members may lodge written queries regarding the PRP within 15 days of the date of the document. These queries may seek further clarification or expanded explanation of the disclosures in the PRP.
- (b) The RE must then determine if it will provide a “clarifying statement” to all members in order to meet its obligations to disclose the information “a member would reasonably require to make a decision whether to vote on, or object to, the proposal”. If the RE believes it should issue a clarifying statement, this document must be provided to members with no less than 7 days of the 30 day disclosure period left to run. This clarifying statement

may be posted prominently on the website if such a delivery method is outlined in the original PRP.

By defining a formal process in this manner, this will ensure the same information is provided to all members and is provided at the same time, ensuring no member gains an improper advantage over other members.

The author would welcome the opportunity to discuss these comments further if required.

Yours faithfully

PRINCIPLED MORTGAGE INVESTMENTS LTD