

**SECTION 22. EXCHANGE TRADED FUNDS ..... 22-1**

22.1 Exchange Traded Funds Overview.....22-1

22.2 ETF Unit Creation (Primary Market) .....22-3

22.3 ETF Unit Redemption (Primary Market).....22-5

# ASX SETTLEMENT PROCEDURE GUIDELINES

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## Context of this Document

The ASX Settlement Procedure Guidelines must be read in the context of the ASX Settlement Operating Rules.

Any terms explicitly defined in the ASX Settlement Operating Rules and used in the ASX Settlement Procedure Guidelines should be interpreted according to the definition given in ASX Settlement Rules. This includes terms such as participant, registry, holder, issuer, subregister, and financial product. Because of the large number of these terms, they have not been capitalised for emphasis in this document.

In the interests of readability and comprehension, where a procedure applies only in the context of securities in a listed company, the specific term security has been used instead of the more generic term financial product.

## Change History

Version	Date	Description of changes
1.0	May 2005	Initial version of a merged guideline document incorporating details from both the PPG and IRPG
1.2	May 2007	Renumbering of this section as the original Section 20 ASX World Link has been removed
1.7	Dec 2010	Updates to include name changes within ASX Group and ASX Operating Rule books. Removal of reference to ITS and inclusion of reference to Approved Market Operator (AMO).
3.1	Jan 2016	ASXOnline document merge.
3.2	Mar 2016	T+2 implementation and change in references from C&S Operations to Post Trade Operations
3.5	Apr 2017	Change to Transaction Basis type used for unit creations and redemptions from 'F' (Facility for Non-Reportable Transactions) to 'O' (Off-Market).

## SECTION 22. EXCHANGE TRADED FUNDS

### 22.1 EXCHANGE TRADED FUNDS OVERVIEW

Exchange Traded Funds (ETFs) are open-ended listed managed investment funds, which are generally established with the objective of achieving the same return as a particular market index, market sector, or other defined portfolio of securities. ETFs are commonly referred to as “hybrid” securities as they combine some of the characteristics of a listed security with those of an unlisted fund.

ETFs allow continuous trading throughout the day, thereby allowing investors to take advantage of intra-day pricing in the market. ETFs can continuously issue new units or redeem existing units.

The creation and redemption of ETF units is intended to minimise (as much as possible) any sustained discounts and premiums between the traded ETF unit price and the underlying unit net asset value, as the quantity rather than price becomes the principal mechanism for achieving balance between the demand for and supply of units on market. ETFs effectively involve an ongoing primary market for unit creation and redemption, which operates in tandem with a secondary market provided by a stock exchange for trading in units already created.

These procedures are concerned with one specific type of ETF, namely ETFs that rely on “in specie” (in kind) consideration for creation and redemption of units in the fund.

ETF units are created in the primary market in creation unit quantities, which consists of a fixed number of ETF units in exchange for the creation unit portfolio, which is a basket of securities that is equivalent in value to the ETF units that comprise a creation unit. The creation unit portfolio will typically also include a cash rounding balance (the cash component) that reflects the difference between the value of the underlying securities and the ETF units being exchanged as part of the unit creation or redemption.

Whilst the issuer typically determines the number of ETF units comprising a creation unit at fund inception, the issuer updates the creation unit portfolio that must be exchanged for an ETF creation unit on a daily basis and publishes this to the market. The cash component is typically set at the end of the day, once the closing prices for the underlying securities within the creation unit portfolio and the net asset value of the ETF units are determined.

Redemption of ETF units occurs in the opposite way. An investor, with a creation unit number of ETF units can apply to the issuer for a unit redemption and receive the creation unit portfolio.

ETF units can only be created or redeemed in creation unit quantities or multiples of single creation unit quantities, in exchange for the creation unit portfolio or multiples of the creation unit portfolio.

## ASX SETTLEMENT PROCEDURE GUIDELINES

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For the secondary market, ETF units are traded on the ASX trading platform or other Approved Market Operator (AMO) platform and settled using CHESSE just like any other listed financial product.

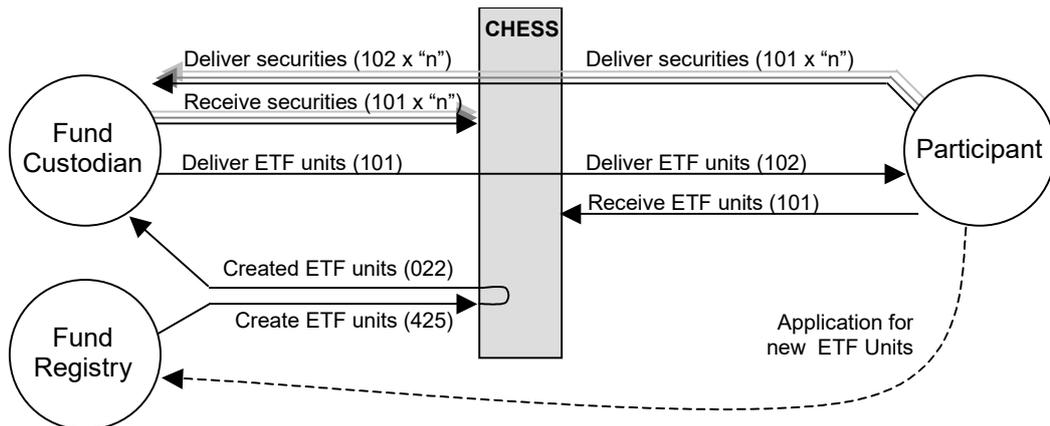
For more information on ETFs, refer to the ASXOnline website (<http://www.asxonline.com>).

22.2 ETF UNIT CREATION (PRIMARY MARKET)

The participant is deemed to be the principal for the purposes of ETF unit creation.

There are several independent roles played by the ETF issuer, including fund custodian and fund registry.

The messages used to create ETF units can be summarised as follows (n is the number of lines in the underlying basket):



PROCEDURE

22.2.1 The participant determines their need to apply for the creation of ETF units.

The participant submits an application for primary market unit creation to the ETF issuer (fund registry)

The participant effects ET special trades as agreed with the issuer and notifies the ETF special trades to ASX market control or AMO.

The participant accumulates the required basket of underlying securities.

22.2.2 The participant sends one Dual Entry Settlement Notification to CHES for each security in the creation unit basket to deliver that security to the fund custodian. These notifications will have a Transaction Basis of "O".

CHES notifies the fund custodian of the unmatched transactions by sending unmatched Dual Entry Settlement Notifications.

22.2.3 The fund custodian sends one Dual Entry Settlement Notification for each security in the creation unit basket to receive that security from the participant. These notifications will have a Transaction Basis of "O".

CHES matches the notifications.

## ASX SETTLEMENT PROCEDURE GUIDELINES

22.2.4 The fund custodian sends CHESSE a Dual Entry Settlement Notification to deliver the ETF units being created to the participant. The value of this transaction should be equal to the value of the basket transactions plus an adjustment for cash as determined by the fund. These notifications will have a Transaction Basis of “O”.

CHESSE notifies the participant of the unmatched transaction by sending unmatched Dual Entry Settlement Notifications.

22.2.5 The participant sends CHESSE a Dual Entry Settlement Notification to receive the ETF units from the fund custodian. The value of this transaction should be equal to the value of the basket transactions plus an adjustment for cash as determined by the fund. These notifications will have a Transaction Basis of “O”.

CHESSE matches the notifications.

22.2.6 The fund registry sends CHESSE a Holding Adjustment to create sufficient ETF units in the fund custodian’s HIN in CHESSE to satisfy the in-specie application.

CHESSE notifies the fund custodian that the units have been created by sending an Effected Holding Adjustment).

22.2.7 On T+2, CHESSE settles the transactions.

Possible outcomes of the settlement are:

- All transactions settle in the net DvP cycle as planned.
- The participant fails to deliver one or more security at settlement. In this case, the participant will be a net payer of funds to the value of the failed settlement. The failed settlement obligation is rescheduled for the next settlement day.
- The custodian fails to settle its delivery of ETF units in the CHESSE net DvP cycle. In this case, the participant will be a net receiver of funds to the value of the failed settlement. The failed settlement obligation is rescheduled for the next settlement day.

### Message Reference Table

Section	Message Number and Description	Sender	Recipient
22.2.2	101 Dual Entry Settlement Notification	Participant	CHESSE
22.2.2	102 Unmatched Dual Entry Settlement Notification	CHESSE	Custodian
22.2.3	101 Dual Entry Settlement Notification	Custodian	CHESSE
22.2.4	101 Dual Entry Settlement Notification	Custodian	CHESSE
22.2.4	102 Unmatched Dual Entry Settlement Notification	CHESSE	Participant
22.2.5	101 Dual Entry Settlement Notification	Participant	CHESSE
22.2.6	425 Holding Adjustment	Registry	CHESSE

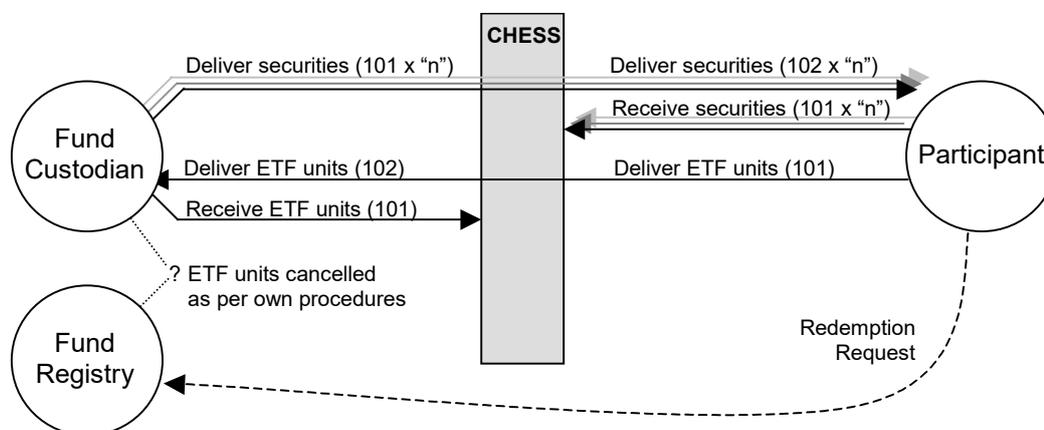
Section	Message Number and Description	Sender	Recipient
22.2.6	o22 Effected Holding Adjustment	CHESS	Custodian

### 22.3 ETF UNIT REDEMPTION (PRIMARY MARKET)

The participant is deemed to be the principal for the purposes of ETF unit redemption.

There are several independent roles played by the ETF issuer, including fund custodian and fund registry.

The messages used to redeem ETF units can be summarised as follows (n is the number of lines in the underlying basket):



#### PROCEDURE

22.3.1 The participant determines their need to apply for the redemption of ETF units.

The participant submits an application for primary market unit redemption to the ETF issuer (fund registry)

22.3.2 The participant sends CHES a Dual Entry Settlement Notification to deliver the ETF units being redeemed to the fund custodian. The value of this transaction should be equal to the value of the basket transactions plus an adjustment for cash as determined by the fund. These notifications will have a Transaction Basis of "O".

CHESS notifies the fund custodian of the unmatched transaction by sending Unmatched Dual Entry Settlement Notifications.

22.3.3 The fund custodian sends CHES a Dual Entry Settlement Notification to receive the ETF units from the participant. The value of this transaction should be equal to the value of the basket transactions plus an adjustment for cash as determined by the fund. These notifications will have a Transaction Basis of "O".

CHESS matches the notifications.

## ASX SETTLEMENT PROCEDURE GUIDELINES

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- 22.3.4 The fund custodian sends one Dual Entry Settlement Notification to CHESSE for each security in the creation unit basket to deliver that security to the participant. These notifications will have a Transaction Basis of “O”.
- CHESSE notifies the participant of the unmatched transactions by sending unmatched Dual Entry Settlement Notifications.
- 22.3.5 The participant sends one Dual Entry Settlement Notification for each security in the creation unit basket to receive that security from the fund custodian. These notifications will have a Transaction Basis of “O”.
- CHESSE matches the notifications.
- 22.3.6 On T+2, CHESSE settles the transactions.
- Possible outcomes of the settlement are:
- All transactions settle in the net DvP cycle as planned.
  - The participant fails to deliver one or more security at settlement. In this case, the participant will be a net payer of funds to the value of the failed settlement. The failed settlement obligation is rescheduled for the next settlement day.
  - The custodian fails to settle its delivery of ETF units in the CHESSE net DvP cycle. In this case, the participant will be a net receiver of funds to the value of the failed settlement. The failed settlement obligation is rescheduled for the next settlement day.
- 22.3.7 The fund registry arranges for cancellation of the redeemed units.

### Message Reference Table

Section	Message Number and Description	Sender	Recipient
22.3.2	101 Dual Entry Settlement Notification	Participant	CHESSE
22.3.2	102 Unmatched Dual Entry Settlement Notification	CHESSE	Custodian
22.3.3	101 Dual Entry Settlement Notification	Custodian	CHESSE
22.3.4	101 Dual Entry Settlement Notification	Custodian	CHESSE
22.3.4	102 Unmatched Dual Entry Settlement Notification	CHESSE	Participant
22.3.5	101 Dual Entry Settlement Notification	Participant	CHESSE

