

ASIC releases new financial requirements for responsible entities

Monday, 7 November 2011

ASIC today released new financial requirements for responsible entities. Under the changes responsible entities must prepare 12-month cash-flow projections which must be approved at least quarterly by directors.

Additionally new net tangible asset (NTA) capital requirements require responsible entities to hold the greater of:

- \$150,000
- 0.5% of the average value of scheme property (capped at \$5 million), or
- 10% of the average RE revenue (uncapped).

A liquidity requirement has also been introduced where an RE must hold at least 50% of its NTA requirement in cash or cash equivalents, and an amount equal to the NTA requirement in liquid assets.

The changes, were implemented through Class Order [11/1140](#), this deems the existence of a new section in the Corporations Act, being:

Section 912AA Adequate financial resources for responsible entities

- 1) This section applies to a financial services licensee ... that is authorised to operate a registered scheme as a responsible entity...

Cash needs requirement

- 4) The licensee must:
 - a) prepare a projection of the licensee's cash flows over at least the next 12 months based on the licensee's reasonable estimate of what is likely to happen over this period; and
 - b) update the projection of the licensee's cash flows when:
 - (i) those cash flows cease to cover the next 12 months; or
 - (ii) there is a material change; or
 - (iii) the licensee has reason to suspect that an updated projection would show that the licensee was not meeting paragraphs (e) or (f); and
 - c) document the licensee's calculations and assumptions on which the projection is based and describe in writing why the assumptions relied upon are the appropriate assumptions; and
 - d) have the projection of the licensee's cash flows approved at least quarterly by the licensee's directors as satisfying the requirements of this subsection; and
 - e) demonstrate, based on the projection of the licensee's cash flows, that the licensee will have access to sufficient financial resources to meet its

liabilities that are expected to be payable over the period to which the projection relates, including any additional liabilities the licensee projects will be incurred during that period; and

- f) demonstrate, based on the projection of the licensee's cash flows, that the licensee will hold at all times during the period to which the projection relates in cash or cash equivalents, an amount equal to or greater than the current amount the licensee is required to hold in cash or cash equivalents under paragraph (8)(a).

Net tangible assets

- 5) The licensee must hold at all times NTA of:
 - a) if subsection (7) applies - at least the greater of:
 - (i) \$150,000; or
 - (ii) an amount up to \$5 million being 0.5% of the average value of scheme property of the registered schemes and IDPSs operated by the licensee; or
 - (iii) 10% of average RE revenue of the licensee;
 - b) Otherwise - at least the greater of:
 - (i) \$5 million; or
 - (ii) 10% of average RE revenue of the licensee.
- 6) A licensee that is the beneficiary of an eligible undertaking of an eligible provider for an unlimited amount is taken to satisfy subsections (5) and (8).
- 7) This subsection applies if one or more of the following are satisfied in relation to each registered scheme operated by the licensee:
 - (a) all the scheme property and other assets of the scheme not held by members are held by:
 - (i) a custodian appointed by the licensee that holds \$5 million NTA; or
 - (ii) an eligible custodian;
 - (b) all the scheme property and other assets of the scheme not held by members are Tier \$500,000 class assets held by:
 - (i) the licensee; or
 - (ii) a custodian appointed by the licensee; or
 - (iii) a sub-custodian appointed by the custodian, provided that:
 - (iv) where the person holding the scheme property or other assets is the licensee—the licensee holds at least \$500,000 NTA; or
 - (v) where the person holding the scheme property or other assets is a custodian or sub-custodian—the custodian:
 - (A) holds at least \$500,000 NTA; or
 - (B) is an eligible custodian; or

- (c) the only scheme property and other assets of the scheme that are not held under paragraph (a) or (b) are special custody assets, each of which is held ASIC CLASS ORDER [CO 11/1140] © Australian Securities and Investments Commission November 2011 Page 4 by:
- (i) the licensee; or
 - (ii) an eligible custodian; or
 - (iii) a custodian that holds at least the NTA that the licensee would be required to hold under paragraph (5)(a); or
 - (iv) a custodian if the only assets held for the scheme are those mentioned in:
 - (A) paragraphs (a), (c) or (g) of the definition of special custody assets in subsection (11); or
 - (B) paragraph (d) of the definition of special custody assets where the audited trust account is a regulated trust account; or
 - (v) the members of the scheme.
- 8) The licensee must hold at all times:
- (a) in cash or cash equivalents at least the greater of:
 - (i) \$150,000; or
 - (ii) 50% of the amount of NTA that would be required under paragraph (5)(a) as if subsection (7) applied; and
 - (b) in liquid assets the amount of NTA that would be required under paragraph (5)(a) as if subsection (7) applied

Audit opinion

- 9) The licensee must lodge with ASIC a report by a registered company auditor addressed to the licensee and ASIC for each financial year of the licensee and any other period that ASIC directs (*audit opinion*) that states whether during any part of the period for which the licensee was authorised to operate a registered scheme:
- (a) in the auditor's opinion, the licensee:
 - (i) complied with paragraph (4)(d), subsections (5), (7) and (8) and other financial requirements in conditions on its licence; and
 - (ii) had at all times a projection (covering at least the following 12 months) that purports to, and appears on its face to, comply with paragraph (4)(a); and
 - (iii) correctly calculated the projections in paragraph (4)(a) on the basis of the assumptions the licensee adopted for the projections described in subparagraph 9(a)(ii); and
 - (b) following an examination of the documents the licensee relies on in complying with subsection (4), the auditor has no reason to believe that:
 - (i) the licensee did not satisfy paragraph 912A(1)(h) for managing the risk of having insufficient financial resources to comply with

this section and other financial requirements in the conditions on its licence; or

- (ii) the licensee failed to comply with paragraphs (4)(c), (e) or (f); or
- (iii) the assumptions the licensee adopted for its projection were unreasonable.

10) The audit opinion must be lodged by no later than:

- (a) for each financial year of the licensee—the day the licensee is required to lodge a balance sheet under Division 6 of Part 7.8 and at the same time as the balance sheet is lodged; and
- (b) for any period of time that ASIC directs—the date ASIC directs the audit opinion to be lodged.

(11) In this section:

adequately secured means:

- (a) secured by an enforceable charge over a financial product (other than a financial product issued by the licensee or its associate) if:
 - (i) the financial product is:
 - (A) regularly traded on:
 - (I) a financial market (as defined in subsection 767A(1) and disregarding subsection 767A(2)) operated by a market licensee or a licensee other than the licensee or its associates that, in the reasonable opinion of the licensee, produces sufficiently reliable prices to assess the value of the security provided by the charge; or
 - (II) an approved foreign market; or
 - (B) an interest in a registered scheme for which withdrawal prices are regularly quoted by the responsible entity of the scheme and the licensee believes on reasonable grounds that withdrawal may be effected within 5 business days; and
 - (ii) the market value of the financial product is:
 - (A) if the financial product is a debt instrument—at least 109% of the amount owing; or
 - (B) otherwise—at least 120% of the amount owing; or
- (b) secured by a registered first mortgage over real estate that has a fair market valuation of at least 120% of the amount owing; or
- (c) owing from an eligible provider; or
- (d) secured by an enforceable charge over amounts owing to another licensee which themselves are adequately secured.

adjusted assets means the value of total assets as they would appear on a balance sheet at the time of calculation made up for lodgement as part of a financial report under Chapter 2M if the licensee were a reporting entity:

- (a) minus the value of excluded assets that would be included in the calculation; and
- (b) minus the value of any receivable that would be included in the calculation, up to the amount that the licensee has excluded from adjusted liabilities on the basis that there is an enforceable right of set-off with that receivable; and
- (c) minus the value of any assets that would be included in the calculation that are encumbered as a security against liability to a person that provides a security bond to ASIC up to the amount of the bond; and
- (d) minus the value of any assets that would be included in the calculation that may be required to be applied to satisfy a liability under a credit facility that is made without recourse to the licensee up to the amount of that liability excluded from adjusted liabilities; and
- (e) plus the amount of any eligible undertaking that is not an asset.

adjusted liabilities means the amount of total liabilities as they would appear on a balance sheet at the time of calculation made up for lodgement as part of a financial report under Chapter 2M if the licensee were a reporting entity:

- (a) minus the amount of any liability under any subordinated debt approved by ASIC that would be included in the calculation; and
- (b) minus the amount of any liability the subject of an enforceable right of set-off that would be included in the calculation, if the corresponding receivable is excluded from adjusted assets; and
- (c) minus the amount of any liability under a credit facility that would be included in the calculation, if it is made without recourse to the licensee; and
- (d) plus the value of any assets that are encumbered as a security against another person's liability where the licensee is not otherwise liable, but only up to the lower of:
 - (i) the amount of that other person's liability; or
 - (ii) the value of the assets encumbered; and
- (e) plus the maximum potential liability of any guarantee provided by the licensee other than a:
 - (i) guarantee limited to an amount recoverable out of any scheme property of a registered scheme operated by the licensee as a responsible entity; or
 - (ii) guarantee of the obligations of another member of a stapled group.

approved foreign market means each of the following:

- (d) American Stock Exchange;

- (e) Borsa Italiana;
- (f) Bursa Malaysia Main Board and Bursa Malaysia Second Board;
- (d) Euronext Amsterdam;
- (e) Euronext Paris;
- (f) Frankfurt Stock Exchange;
- (g) Hong Kong Stock Exchange;
- (h) JSE;
- (i) London Stock Exchange;
- (j) NASDAQ Stock Market;
- (k) New York Stock Exchange;
- (l) New Zealand Exchange;
- (m) Singapore Exchange;
- (n) SWX Swiss Exchange;
- (o) Tokyo Stock Exchange;
- (p) Toronto Stock Exchange; and
- (q) a foreign market approved in writing for this purpose by ASIC.

average RE revenue means:

- (a) for a licensee in its first financial year, the licensee's forecast of its RE revenue from the commencement date for the remainder of the first financial year pro-rated to a 12 month period; and
- (b) for a licensee in its second financial year of operation of a registered scheme as a responsible entity— the aggregate of the licensee's:
 - (i) estimate of its actual RE revenue for the second financial year to-date; and
 - (ii) forecast of its RE revenue for the remainder of the second financial year; and
- (c) for a licensee in its third financial year of operation of a registered scheme as a responsible entity—the average of:
 - (i) the aggregate of the licensee's:

- (A) estimate of its actual RE revenue for the third financial year to-date; and
 - (B) forecast of its RE revenue for the remainder of the third financial year; and
- (ii) the licensee's RE revenue for its second financial year; and
- (d) for all subsequent financial years—the average of:
 - (i) the aggregate of the licensee's:
 - (A) estimate of its actual RE revenue for the current financial year to-date; and
 - (B) forecast of its RE revenue for the remainder of the current financial year; and
 - (ii) the licensee's RE revenue for the last preceding financial year; and
 - (iii) the licensee's RE revenue for the second preceding financial year.

average value of scheme property means the greater of:

- (a) the current value of scheme property; and
- (b) the value of the scheme property in the following circumstances:
 - (i) for a licensee in its first financial year of operation of a registered scheme as a responsible entity—the average of:
 - (A) the value of scheme property at the end of each calendar month since the commencement date; and
 - (B) the forecast value of scheme property at the end of each calendar month for the remainder of the first financial year; and
 - (ii) for a licensee in its second financial year of operation of a registered scheme as a responsible entity—the average of:
 - (A) the value of scheme property at the end of each calendar month since the commencement date; and
 - (B) the forecast value of scheme property at the end of each calendar month for the remainder of the second financial year; and
 - (iii) for a licensee after the first 2 financial years of operation of a registered scheme as a responsible entity—the average of:
 - (A) the value of scheme property at the end of each calendar month since the beginning of the second preceding financial year; and
 - (B) the forecast value of scheme property at the end of each calendar month for the remainder of the current financial year.

cash or cash equivalents means:

- (a) cash on hand, demand deposits and money deposited with an Australian ADI that is available for immediate withdrawal; and
- (b) short-term, highly liquid investments that are readily convertible to known amounts of cash that are subject to an insignificant risk of changes in value; and
- (c) the value of any eligible undertaking provided by an eligible provider; and
- (d) a commitment to provide cash from an eligible provider that can be drawn down within 5 business days and has a maturity of at least 6 months.

clearing participant means a participant (as defined in section 761A in relation to a clearing and settlement facility) in the licensed CS facility operated by ASX Clear Pty Limited ACN 001 314 503 (***ASX Clear***) that is required to comply with, and complies with the operating rules of ASX Clear that relate to financial requirements, taking into account any waiver of those requirements by ASX Clear.

commencement date means the day on which the licensee was authorised to operate any registered scheme.

eligible custodian means:

- (a) an Australian ADI; or
- (b) a market participant or a clearing participant; or
- (c) a sub-custodian appointed by a person referred to in paragraph (a) or (b).

eligible provider means:

- (a) an Australian ADI; or
- (b) a Commonwealth or a State or Territory government or a government of a country that is a member of the Organisation for Economic Co-operation and Development or an agency or instrumentality of such a government; or
- (c) a foreign deposit-taking institution:
 - (i) that is regulated by a regulator approved in writing by ASIC for this purpose; or
 - (ii) approved in writing by ASIC for this purpose; or
- (d) an Australian CS facility licensee within the meaning of section 761A; or
- (e) an entity approved by ASIC in writing for this purpose.

eligible undertaking means:

- (a) an enforceable and unqualified undertaking by an eligible provider, expressed to be irrevocable without the written consent of ASIC, to pay, on written demand by the licensee, a certain amount; or
- (b) an undertaking approved in writing by ASIC as an eligible undertaking. The amount of an eligible undertaking is taken to be at any time the amount that remains payable despite any amount previously paid under the undertaking less any amount that would be repayable as a liability by the licensee if money were paid.

excluded assets means:

- (a) intangible assets; and
- (b) assets owed by, or receivables from, or assets invested in, any person who:
 - (i) is an associate of the licensee; or
 - (ii) was an associate of the licensee at the time the liability was incurred or the investment was made; or
 - (iii) became liable to the licensee in connection with the acquisition of interests in a managed investment scheme operated by the licensee; and
- (c) assets:
 - (i) held as a beneficial interest or an interest in a managed investment scheme; or
 - (ii) invested in a superannuation product in respect of which the licensee or an associate may exercise any form of power or control; and
- (d) receivables from a trustee of a trust in respect of which the licensee or an associate may exercise any form of power or control, but, despite anything in the paragraphs above, does not include the following:
- (e) a receivable mentioned in paragraph (b) or (d):
 - (i) to the extent that it is adequately secured; or
 - (ii) to which all of the following apply:
 - (A) it is receivable as a result of a transaction entered into by the licensee in the ordinary course of its business on its standard commercial terms applicable to persons that are not associated with the licensee on an arm's length basis;
 - (B) no part of the consideration in relation to the transaction is, in substance, directly or indirectly invested in the licensee;
 - (C) the total value of the receivable (before any discount is applied) is not more than 20% of the assets less liabilities of the licensee; or

- (iii) to which all of the following apply:
 - (A) it is receivable from an insurance company that is a body regulated by APRA and results from a transaction entered into by the licensee in the ordinary course of its business on its standard commercial terms applicable to persons that are not associated with the licensee on an arm's length basis;
 - (B) the licensee has no reason to believe that any amount invested in the licensee would not have been invested if the transaction that caused the receivable had not taken place or were not at the time of the investment expected to take place; and
 - (C) the licensee has no reason to believe that the recoverability of the receivable will materially depend on the value of an investment by any person in the licensee; and
 - (D) the total value of the receivables under this subparagraph is not more than 60% of the adjusted liabilities of the licensee disregarding this subparagraph; or
- (iv) to which ASIC has given its consent in writing to the licensee treating the receivable as not being an excluded asset; or
- (v) to the extent that it is owing by way of fees from, or under rights of reimbursement for expenditure by the licensee out of property of or in relation to:
 - (A) a superannuation entity within the meaning of section 761A;
 - (B) an IDPS;
 - (C) a registered scheme, to the extent that the receivable:
 - (D) exceeds amounts invested by the entity, IDPS or scheme in, or lent (other than by way of a deposit with an Australian ADI in the ordinary course of its banking business) directly or indirectly by the entity, IDPS or scheme to:
 - (I) the licensee; or
 - (II) a body corporate the licensee controls; or
 - (III) a body corporate that controls the licensee; or
 - (IV) a body corporate that the licensee's controller controls; and
 - (E) if receivable by way of fees, represents no more than the amount of fees owing for the previous 3 months; and
 - (F) if receivable under rights of reimbursement for expenditure by the licensee, has not been receivable for more than 3 months; and
- (f) an asset mentioned in paragraph (c) to the extent it is a managed investment product unless any part of the amount invested is, in substance, directly or indirectly invested in the licensee.

first financial year means the financial year in which the commencement date occurs.

IDPS means an investor directed portfolio service, consisting of a number of functions including a custody, settlement and reporting system and service with the following features:

- (a) the clients of the service have the sole discretion to decide what (but not necessarily when) assets will be acquired or disposed of, except where:
 - (i) there are any prior written directions to acquire or dispose of a particular asset in particular circumstances that the client has agreed not to vary (other than on the exercise of any discretion on the part of an operator); or
 - (ii) the client has authorised the operator or another person to give directions on their behalf, for the purpose of the other person receiving or securing payment of moneys owing by the client to the person; and
- (b) subject to any prior contrary directions in order to ensure payment of moneys for which the client is liable, a client may direct the operator to:
 - (i) take reasonable steps to transfer assets to or to the order of the client;
 - (ii) realise assets held on account for the client and either:
 - (A) pay the proceeds to or to the order of the client; or
 - (B) if the operator and the client agree, hold the proceeds under the IDPS in an account with an Australian ADI designated as a trust account,

unless the assets cannot be transferred or realised under law or the terms of their issue; and

- (c) except where otherwise mentioned in paragraph (a) or (b), any discretion of the holder of assets held through the service may be exercised only in accordance with the directions from time to time of the relevant client; and
- (d) the service is provided in such a way that clients are led to expect, and are likely to receive, benefits in the form of:
 - (i) access to investments that the client could not otherwise access directly; or
 - (ii) cost reductions by using assets contributed by the client or derived directly or indirectly from assets contributed by the client with assets contributed by other clients or derived directly or indirectly from assets contributed by other clients.

IDPS property means property acquired or held through an IDPS other than property held by a client.

liquid assets means:

- (a) cash or cash equivalents other than paragraph (d) of the definition of cash or cash equivalents; and
- (b) assets that the licensee can reasonably expect to realise for their market value within 6 months,

that are free from encumbrances and, in the case of receivables, free from any right of set-off.

market participant means a participant as defined in section 761A in relation to a financial market:

- (a) in the licensed financial market operated by ASX Limited ACN 008 624 691 that is required to comply with, and complies with the *ASIC Market Integrity Rules (ASX Market) 2010* that relate to financial requirements, taking into account any waiver by ASIC;
- (b) in the licensed financial market operated by Chi-X Australia Pty Limited ACN 129 584 667 that is required to comply with, and complies with the *ASIC Market Integrity Rules (Chi-X Australia Market) 2011* that relate to financial requirements, taking into account any waiver by ASIC; or
- (c) in the licensed financial market operated by Australian Securities Exchange Limited ACN 000 943 377 (*ASX 24 market*), that:
 - (i) restricts its financial services business to participating in the ASX 24 market and incidental business; and
 - (ii) complies with the *ASIC Market Integrity Rules (ASX 24 Market) 2010* that relate to financial requirements, taking into account any waiver by ASIC.

NTA means adjusted assets minus adjusted liabilities.

participant has the meaning given by section 761A.

regulated trust account means:

- (a) a trust account maintained by a licensed trustee company within the meaning of Chapter 5D or the Public Trustee of a State or Territory; or
- (b) a trust account maintained by a solicitor unless moneys in the account include moneys that are excluded from regulation as trust money under laws of the State or Territory relating to legal practitioners that are relevant to operation of the trust account by the solicitor; or
- (c) a trust account maintained by a real estate agent under the law of a State or Territory; or
- (d) a trust account maintained by an entity other than the licensee and that provides protections similar to the accounts described in paragraphs (a) to (c), and is approved in writing by ASIC for this purpose.

RE revenue means:

- (a) the licensee's revenue (within the meaning given by the accounting standards); and
- (b) to the extent it is not the licensee's revenue (within the meaning of the accounting standards)—any amount paid or payable out of scheme property for the performance of the obligations imposed on the licensee as a responsible entity in connection with the registered schemes it operates, even if those obligations are performed by another entity (including asset management, investment management, property management, scheme administration and custodial and trustee services).

Note: An amount under paragraph (b) excludes any audit fees paid or payable to an auditor engaged to meet any audit requirements under the Act.

serviced strata scheme means a registered scheme that involves owners of strata

title units, community title interests or similar real property interests at the one real property location, making their units or interests in real property available to a manager for use as part of a serviced apartment, hotel, motel or resort complex.

special custody assets means:

- (a) for serviced strata schemes, cash held in a regulated trust account for the purposes of:
 - (i) refurbishment or improvement of real property associated with the scheme; or
 - (ii) alleviating seasonal fluctuations in payments of income from the scheme in accordance with provisions in the constitution,

provided that no more is held than the licensee reasonably considers necessary for the relevant purpose; and
- (b) currency and chattels (other than documents) that it would not be reasonably practicable for a person other than the responsible entity to hold; and
- (c) funds received from members of the scheme within the previous 6 months held in a regulated trust account; and
- (d) cash held for up to 3 months in an account with an Australian ADI styled as a trust account that is audited at least once every 6 months by a registered company auditor where the auditor's report states that in the auditor's opinion the account has been operated in accordance with the trust:
 - (i) pending payment to members; or
 - (ii) to meet expected expenses (not including investments) over a 3 month period; or
 - (iii) pending application in acquiring a mortgage and paying any fees and costs incidental to the acquisition; and

- (e) contractual, lease or licence rights that are not assignable except with the consent of the member or that it would not be reasonably practicable to assign (other than to a new responsible entity) and any documents evidencing those contractual, lease or licence rights; and
- (f) assets of trivial value; and
- (g) land and other real property of a time-sharing scheme and levies of a time-sharing scheme which are held in an account with an Australian ADI styled as a trust account that is audited at least twice annually by a registered company auditor where the report from the auditor is provided to the responsible entity's board or compliance committee and states that in the auditor's opinion the account has been operated in accordance with the trust; and
- (h) mortgages or documents of title held under a mortgage where:
 - (i) particular members have a specific beneficial or legal interest in the mortgage; and
 - (ii) the mortgage was acquired after disclosure in writing to the relevant members (at the time of the acquisition) of all information that would have been required to be in a Product Disclosure Statement (or in relation to mortgages acquired before Division 2 of Part 7.9 applied to interests in the registered scheme, a disclosure document under Chapter 6D) if an offer of interests in the registered scheme conferring rights in connection with that mortgage had been made immediately prior to the mortgage; and
 - (iii) either:
 - (A) the mortgage was acquired on the specific direction of the relevant members (at the time of acquisition of the interest); or
 - (B) members are able to withdraw from that mortgage for a period of 14 days commencing on the date of disclosure under subparagraph (ii); and
 - (iv) the scheme does not involve the mortgage being sold prior to its discharge.

stapled group means the group of entities consisting of:

- (a) one or more stapled issuers who are issuers of securities that must be transferred together; and
- (b) all wholly-owned entities controlled by the stapled issuers.

stapled issuer means an entity a security of which under the terms on which it is traded on a prescribed financial market, must be transferred together with a security of one or more other entities.

Tier \$500,000 class assets means:

- (a) real property (including mortgages or leases over or licences in relation to real property) that is intended to be kept for the whole duration of the scheme or, the relevant mortgage; and .
- (b) physical assets which as a matter of reasonable practice can be held by a custodian (such as currency, valuables or precious metals); and
- (c) funds held in a regulated trust account which were received from members within the following the periods:
 - (i) if held for the purposes of the initial investment by the responsible entity as part of the scheme—the previous 6 months; or
 - (ii) if held pending payment of expenses of the scheme—the previous 13 months; and
- (d) special custody assets.

value of assets means the value of assets determined as follows:

- (a) in the case of assets that would be recognised in preparing a balance sheet for members under Chapter 2M – the value as if at that time such a balance sheet was being prepared; and
- (b) in the case of any other scheme property or IDPS property – its market value.

value of scheme property means the value of:

- (a) assets (including mortgages held by members of a mortgage scheme and managed as part of the scheme);
- (b) any scheme property not counted in calculating the value of assets; and
- (c) any IDPS property.

and outlined in updated versions of Regulatory Guide 166 Licensing: Financial requirements (RG 166) and Pro Forma 209 Australian financial services licence conditions (PF 209), aim to ensure REs have adequate resources to meet operating costs and there is appropriate alignment with the interests of investors.

‘To help ensure confident and informed investors, schemes wanting to take on the responsibility of managing investors’ money must be backed by REs with appropriate financial substance,’ ASIC Chairman Greg Medcraft said.

‘As Australia raises its profile as a leading financial centre, increasing minimum responsible entity capital requirements to a level that is globally comparable improves confidence in the integrity of our markets.’

Under the changes - which are the first significant changes in more than a decade to the rules covering financial requirements for MISs - REs must prepare 12-month cash-flow projections which must be approved at least quarterly by directors.

To meet the new net tangible asset (NTA) capital requirements, REs must hold the greater of:

- \$150,000
- 0.5% of the average value of scheme property (capped at \$5 million), or
- 10% of the average RE revenue (uncapped).

A liquidity requirement has also been introduced where an RE must hold at least 50% of its NTA requirement in cash or cash equivalents, and an amount equal to the NTA requirement in liquid assets.

The updated versions of RG 166 and PF 209 are appendices to Report 259 Response to submissions on CP 140 Responsible entities: Financial requirements (REP 259).