



**BetaShares**

Exchange Traded Funds

## Media release

### **Australia sets the standard in ETF regulation**

**SYDNEY, 27 April 2011:** BetaShares Capital Ltd (BetaShares), one of Australia's leading exchange traded fund (ETF) providers, says Australia is leading the way with best practice standards for regulating ETFs that are designed to ensure Australia avoids issues raised in the recent Bank for International Settlements (BIS) paper on the risk of ETFs.

Some of the key issues highlighted in the BIS paper relate to the quality and liquidity of physical assets underlying synthetic ETFs and motivations that may arise when the ETF issuer is a related party to the investment bank that is the swap counterparty.

BetaShares is the issuer of both physical replication and synthetic replication ETFs in Australia.

Drew Corbett, Head of Investment Strategy & Distribution at BetaShares said the paper has highlighted some important issues relating to overseas synthetic ETFs that were addressed by the Australian regulators prior to synthetic ETFs being introduced in Australia.

"In the process of launching our synthetic ETFs in December 2010, we worked collaboratively with ASIC and ASX who set the standard in synthetic ETF regulation. ASIC and the ASX have been one step ahead in relation to the key issues raised in the BIS paper and should be complimented for adopting world's best practice on ETF regulation. The rest of the world should be following Australia's lead," Mr Corbett said.

The guidelines developed by the Australian regulators included local swap-enhanced ETFs being allowed a maximum counterparty exposure of 10% and a requirement for the underlying assets held by the ETF to be consistent with the investment objective of the fund.

As such, the basket of assets which make up BetaShares ETFs can only be ASX300 stocks related to the index being tracked or cash as outlined in the product disclosure statement. In addition, since inception, any counterparty exposure in BetaShares synthetic ETFs has been less than 0.5% of the NAV as part of its stricter self-imposed standards.

BetaShares as the responsible entity enters into arms-length agreements with swap counterparties that are not related entities, ensuring that BetaShares always acts in the best interests of the ETF investors. Similarly, the choice of physical assets that are owned by BetaShares ETFs is only influenced by BetaShares' fiduciary duties to its unitholders.

"BetaShares looked at synthetic ETFs overseas and wanted to provide the benefits of more accurate tracking, lower costs and ultimately improved liquidity to reduce costs for investors,

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but without some of the less desirable structural elements that are present in foreign markets. We firmly believe that investors should expect uncompromised transparency in ETFs. As a firm, we are committed to upholding this principle, both in respect of our physical replication ETFs as well as our synthetic ETFs,” he said.

For example, by visiting the BetaShares website, investors can see the exact basket of shares which are held by BetaShares synthetic ETFs.

“Although there may be some undesirable practices occurring in overseas ETF markets, we believe BetaShares and Australian regulators are lifting the standards by which all synthetic ETF issuers should be assessed. We believe the evolution of ETFs to a synthetic structure can provide advantages which are unavailable from physical replication alone and will continue to work with regulators to ensure they remain the robust structures that ETF investors expect,” Mr Corbett concluded.

Further information can be found at [www.betashares.com.au](http://www.betashares.com.au) and [www.asx.com.au](http://www.asx.com.au).

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#### **About BetaShares**

BetaShares is a specialist provider of ETFs designed for Australian investors. BetaShares objective is to expand the universe of investment possibilities open to investors by providing ETFs that empower investors to implement their investment strategies with ease.

#### **About BetaShares ETFs**

BetaShares ETFs are Australian domiciled ETFs which trade on the Australian Securities Exchange, and are bought and sold by investors like shares. BetaShares will deliver ETF products that allow investors to track the performance of a range of market indices and asset classes.

Australian-owned and managed, BetaShares is affiliated with BetaPro Management, one of the largest ETF issuers in North America.