Working Party on Financial Statistics

FUNDS IN AUSTRALIA: IMPORTANCE AND MEASUREMENT CHALLENGES WITHIN THE AUSTRALIAN NATIONAL ACCOUNTS

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Funds in Australia: Importance and Measurement Challenges within the Australian National Accounts

Introduction

1. The assets of investment funds are a significant part of the Australian economy. As at June 2016 the consolidated position of investment funds assets was $718.6b which represents approximately 13% of the consolidated position for all financial institutions. In the past 20 years the managed funds industry, of which investment funds are a part, has grown so that now their size and position in the Australian economy is of prime interest to government, market regulators and economic analysts alike.

2. The growth and strength of Australia’s managed funds industry has been supported by Australia’s compulsory pension system (introduced in 1992) whereby 9% of wages and salaries are automatically redirected into pension funds which in turn seek to invest their funds in the most efficient manner which maximises returns, which includes the use of investment funds. This impetus is further helped by a well-developed financial regulatory system; competitive financial markets which are open to domestic and global competition which has resulted in the development of innovative investment products; and an increasingly sophisticated investor base seeking better returns in an low interest rate environment.

3. Australian investors have a wide range of investment fund types to choose from – the main ones being listed and unlisted property and infrastructure trusts, listed and unlisted equity trusts, hedge funds, mortgage trusts, EFTs and trusts which invest in a “balance” of different types of investments. These funds can be open to retail investors or wholesale/institutional investors exclusively or a mix of both; and all have to be appropriately licenced to ensure market integrity and consumer protection.

4. One of the main problems the Australian Bureau of Statistics (ABS) has with the measurement of investment funds is that they are not regulated like other major managed funds institutions, such as pension funds and life insurance corporations, where there is a defined population and there is a requirement to provide detailed information to a regulator, such as the Australian Prudential Regulation Authority (APRA) on a quarterly basis. By contrast investment funds are regulated to the extent that their manager must obtain a licence from the Australian Securities and Investment Commission (ASIC) for each investment fund they offer to the public to raise funds; and the manager must be a registered Australian public company and hold an Australian financial services (AFS) licence with ASIC to ensure they are sufficiently qualified to manage the fund. However ASIC does not produce ongoing detailed aggregate data on their registered retail funds and does not require wholesale funds to be registered (a significant gap to ABS coverage). Due to this lack of administrative data, ABS has endeavoured to survey investment funds under the Census and Statistics Act 1901 via the quarterly Survey of Financial Information (SFI), but there have been ongoing problems with determining the population in terms of both scope and coverage.

Australian approach to measuring investment funds

History of ABS measurement of investment funds

5. Australia has had individual examples of investment funds in operation back as far as the 1930s, but over time their use has grown exponentially especially since the 1990s with the introduction of a
compulsory pension scheme and the resulting increased sophistication of the Australian financial markets. See graph below.

TOTAL LIABILITIES - INVESTMENT FUNDS, PENSION FUNDS & FINANCIAL CORPORATIONS,
Percentage growth, June 1988 base

6. Similarly during that period the ABS sought to measure that growth via a variety of data releases, usually by the specific type of investment fund which resulted from data collected via the ABS Survey of Financial Information. In addition, the then titled Australian National Accounts: Financial Accounts (cat no. 5232.0) under SNA93 did not allow for separate analysis of investment funds, as the institution classifications did not separately identify them as a subsector class (e.g. money market funds were included in Other depository Institutions and non-money financial investment market funds in Other financial corporations sector classification).

7. Consequently in an effort to better measure the growth of the managed funds management industry, the ABS in the early 1990s amalgamated its various individual investment fund releases into an omnibus publication Managed Funds, Australia (cat. no. 5655.0) which gave detailed asset information on individual managed funds institutions by institution type and an attempt was made to give a consolidated measure of the total managed funds industry in Australia. However this data release was limited in that it only reflected the results of the quarterly ABS Survey of Financial Information; and was not integrated within the ANA framework.

8. However with the introduction of 2008SNA the updated sector classification included a money market and non-money market investment funds, the Australian System National Accounts (ASNA) was also able to throw a spotlight on the growth in this sector in the financial markets. Thus since 2010, the ABS has been releasing two sets of data on the funds management industry in Australia – Managed Funds, Australia (cat no. 5655.0) and Tables 9, 21 and 22 in the Australian National Accounts(ANA): Finance and Wealth (cat no 5232.0). The two data releases while similar in many respects with regard to the assets of investment funds (due to the use of the same data source), differ markedly on the liability side due to differing data sources, compilation methodologies, and overall in terms of presentation and terminology. The differences between the two data releases relate primarily to the fact that one, ANA Finance and Wealth is presented on a basis which is fully integrated within the ASNA. Nevertheless the managed funds release, which is not part of the ASNA, remains a useful source of information for local financial analysts as it does provide lower level institution breakdowns than that offered by the ANA Finance and Wealth.
However the issues relating to the measurement of investment funds remains the same for both ABS releases.

Definitions

9. The 2008SNA revised sub sectoring of the financial corporations sector as implemented by Australia is reflected in the Australian sector classification, Standard Institutional Sector Classification of Australia (SISCA 2008). The SISCA 2008 and the institutional sector classification as described in 2008SNA are broadly comparable.

10. One of the key changes introduced under the 2008SNA institutional sector classification was the separate identification of money market funds and other investment funds within the financial corporations sector. The 2008SNA definition of investment funds was necessarily fairly broad in nature as it was designed to apply to different institutional and legal settings in operation in different countries. Therefore in an effort to adapt the 2008SNA definition to reflect the Australian economy, ABS undertook considerable discussion and consultation both internally and with major external users to refine the definitional and classification aspects of such funds given their importance in the Australian economy. The ABS subsequently adopted a definition to suit the Australian context.

11. The ABS defines investment funds as institutions which exhibit the following characteristics:
   • Pooling of investors' monies to purchase assets;
   • Assets are owned by a legal entity such as a trust or company, which issues shares/units to investors on a proportional ownership basis;
   • The fund/company must be open to the public, either via a prospectus or a distribution channel (e.g. a platform); and
   • The investors are able to dispose of their units and/or shares within a reasonable period of time, on a well-developed secondary market, such as a stock exchange or through readily accessible redemption facilities offered in association with the fund.

12. Investment funds displaying the above characteristics are classified to one of three categories in ASNA:
   • money-market investment funds, or
   • non-money market financial investment funds, or
   • non-financial investment funds

13. In Australia, investment funds are classified according to their asset profile. Therefore only those funds investing predominantly in financial assets are treated as financial corporations. Those investing in non-financial assets, such as property, are treated as non-financial corporations. This is a minor departure from the 2008SNA which recommends that investment funds which invest in real estate (REIT’s) should be classified to financial corporations. The ABS has deemed that a unit which derives the majority of its income through property rentals should not be classified as a financial corporation but instead should be classified as a non-financial corporation. In addition the ABS opted to separately classify money-market funds as it allows the advantage of permitting an alternative consolidation of money market funds with the broad money institutions sector for monetary analysis, as well as allowing for separate analysis within the managed funds industry.

14. Several institutions that pool investor funds are not classified as investment funds because they do not have a sufficiently active secondary market for their units and/or shares (e.g. agricultural, film and
timeshare trusts and venture capital development funds). The ABS believes that the ability to readily liquidate investment fund units/shares is a crucial conceptual issue which relates to its reinvested earnings treatment in the ASNA, i.e. justification for treating the undistributed earnings of these funds as if they are distributed and reinvested. An investor who holds units/shares in a fund with these facilities has a choice as to whether to maintain the investment into the next period, or withdraw the funds. If the investor chooses to maintain the investment, then it is appropriate to recognise that a reinvested earnings flow has taken place.

Types of investment fund

15. In the Australian markets investment funds can be referred to by several different names – managed funds, collective investment trusts, managed investment schemes, public unit trusts. To determine whether a fund is in scope, ABS classifies according to the mix of the following attributes:

- are they listed (closed-ended) or unlisted (open-ended);
- are their units/shares able to be traded on a secondary market;
- do they invest in financial or non-financial assets;
- what is their major type of asset (e.g. equity, mortgages, property, fixed interest); and
- are they a money market (i.e. short term assets) or non-money market fund (long term assets).

16. Then ABS is able to use the above attributes to sort funds into the following three classifications in its data releases: non-financial investment funds, money-market investment funds and non-money market financial investment funds (the listed/unlisted and asset type attributes are made evident by the instrument classification). Appendix 1 contains a detailed definition of these funds from SISCA 2008 but the following gives a general description of the major types of funds included:

- **Non-financial investment funds** include listed and unlisted property trusts and infrastructure trusts.
- **Money market investment funds** include cash common funds and cash management trusts.
- **Non-money market financial investment funds** include listed and unlisted equity trusts, unlisted mortgage trusts, listed investment companies (LICs), wholesale (master) funds, non-cash common funds and balanced/diversified trusts.

Legislative framework of investment funds

**Investment fund legislative framework**

17. Investment funds in Australia operate legally as “Managed Investment Schemes” under the Corporations Act 2001 as administered by the Australian Securities and Investment Commission (ASIC) which is Australia's corporate, markets and financial services regulator. ASIC’s role is to ensure that “Australia's markets are fair and transparent, supported by confident and informed investors and consumers” (ASIC website). The function of ASIC is enforcing and administering corporate law and consumer protection law for investments, life and general insurance, superannuation and banking (except lending) throughout Australia. The key principles underlying the ASIC approach to its function are one of market integrity and consumer protection. It aims to ensure that there is confidence against fraud and that consumers are treated fairly.

18. Specifically in relation to investment funds, rather than direct regulation, ASIC requires that every investment fund seeking funds from the public must be registered with ASIC. Part of this registration process includes the investment manager providing a Product Disclosure statement which contains detailed...
information in plain English about the fund’s investment approach (including what the investment trust deed allows) and background information about the investment manager (officially known as the responsible entity) who operates the fund. In addition the investment manager must be registered with ASIC to ensure that it is suitably qualified to operate the fund, i.e. it must be an Australian public company and hold an Australian financial services (AFS) license authorising it to operate/manage the fund.

19. Given the licensing approach of investment funds taken by ASIC, there is minimal administrative data available; mainly a listing of investment funds with their unique registration reference number (ARSN) and the names of their responsible entities (i.e. investment managers) and limited annual data relating to size and type of principle investment. The annual data is not of sufficient detail to satisfy ASNA instrument/institution classification requirements. In addition, ASIC only requires licences from those funds seeking funds from the public; it does not require a licence of funds which are designed only to obtain funds from corporate/wholesale investors, such as pension funds and other financial/corporate/government institutions. This is a gap in ABS coverage of investment funds which has resulted in ABS having to look to alternative non administrative sources in an attempt to achieve full coverage.

20. In addition to the ASIC requirements, listed investment funds are required also to adhere to the regulations and bi-annual reporting requirements set out by the Australian Stock Exchange (ASX), similar to those of listed corporations. The biannual reporting satisfies accounting standards rather than SNA requirements.

ABS’s role within the regulation framework

21. The ABS’s only role in relation to the regulation of managed funds industry is to ensure the data relating to it is collected efficiently and meets the requirements of the ASNA. To this end, the ABS has elected where possible to use data collected by the regulators under the Financial Sector (Collection of Data) Act 2001 (rather than the ABS Census and Statistics Act 1905) because it better satisfies the requirements of all agencies, particularly access to unit record data; is more efficient; involves less provider burden and results in almost perfect response rates.

22. This data sharing agreement is administered by the Tripartite Data Committee (TDC) which is made up of officers at a relatively operational level from the Reserve Bank of Australia (RBA), Australian Prudential Regulation Authority (APRA) and ABS. This committee came into existence in 2002 and initially covered deposit taking institutions, with pension funds and general insurance data following a few years later. In regard to managed funds, the TDC has recently been addressing the introduction of revised pension funds forms in an effort to gain better data on activities where pension funds have become increasingly significant, such as stock lending and the complexity of their investment fund holdings. Specifically, ABS wanted to look through the item "funds placed with fund managers" to the underlying assets holdings that fund placement represent.

Source of data on investment funds

23. Due to a lack of administrative/regulator data sources, ABS has had to obtain data directly from the managers of the investment funds who by law are the responsible entity for the fund. The data is collected under the Census and Statistics Act 1901 via the quarterly Survey of Financial Information (SFI), using the (a) Money Market Funds, (b)Non-Money Market Funds and (c)Investment Manager forms. The SFI requests detailed income and expenditure data, asset and liability data complete with detailed ASNA instrument/sector requirements and unit flows information. The surveys for (a) and (b) collects information on the investment funds, while the survey (c) collects the source (e.g. pension funds, retail
investment funds, wholesale investment funds and life insurance corporations) of funds under management; and how the source of funds of pension funds and wholesale trusts where invested.

24. A key element in investment fund statistics is understanding the role and responsibilities of the investment manager, often referred to as the “fund manager”. In practice the investment manager (the reporting unit) is different to the investment funds (the statistical unit) which own the assets. In practice most investment managers, particularly in the unlisted investment fund sector, will be required to report data for many, sometimes up to a hundred, investment funds on their ABS return.

**Measurement issues/problems**

**General issues**

*Complexity of the market*

25. The key to collecting and maintaining valid statistical information about investment funds is to understand their role in the funds management industry and in the wider economy. In Australia the term 'managed funds' is used loosely in the financial community to embrace two broad types of institution:

- Firstly there are managed funds institutions (such as life insurance companies, pension funds and investment funds) which buy assets and incur liabilities, which are represented on their own balance sheets; and
- Secondly there are investment (fund) managers which act for a fee as investment agents for the managed funds institutions, as well as others with funds to invest. Investment managers themselves have relatively small balance sheets because most of the assets they manage are purchased on behalf of clients. In the markets and the financial press, their size is measured by “funds under management” which is not in line with the SNA concept of ownership.

26. The diagram below gives a broad indication of some of the complexity of the Australian funds management industry.
27. The managed funds industry is difficult to measure because of large amounts of interaction between managed funds institutions and investment managers, and between investment managers themselves. In addition the market has been further complicated by the growth of financial auxiliaries such as platforms which have developed to efficiently facilitate the growth in use of fund manager services by the retail investor and self-managed superannuation (pension) funds (SMSFs). Some of the transactions involve a change of ownership and should be reported in ASNA while others are not, but may have an impact on some reporting by respondents if directions are not clear. Consequently the measurement problem of double counting or omission of investment funds through the system is a constant issue to be addressed.

28. Some background on the major managed funds industry participants in Australia should provide context with the issues relating to collecting data on investment funds. The main participants are:

- **Investment fund managers.** These are Australian subsidiaries of local or international banks, and/or insurance conglomerates. However in addition, there is a group called “boutique managers” who are independent, which tend to specialise in certain markets, are relatively small in number but can be significant in terms of funds under management. Investment managers offer both retail and wholesale/institutional investment products/funds to clients. In recent years the distinction between retail and wholesale funds has become blurred. ABS has made the decision that investment funds that are registered with ASIC be classified as retail funds because their registration requirements indicate that these funds are aimed at obtaining funds at least partially from the household sector.

- **Platforms.** This is the generic name for any administration service offered by investment fund managers, which provides the investor with a menu of investment options (i.e. products offered by the fund manager - both retail and wholesale - and those of other fund managers that offer a specialised product). The platform is also a useful tool for financial planners with their networks.
allowing households a ready access to what was previously the wholesale markets. The terms master trust, wraps and platforms are the most common types of platforms. The market for platforms has become popular with retail investors because:

- they enable investors (usually via financial planners) to diversify their investments by providing a menu of options in which they can choose a fund manager and/or an overall investment strategy;
- they provide consolidated reporting of investments which is particularly useful for tax reporting, as investors receive one report which summarises the performance of all their investments; and
- they allow retail investors access to the wholesale market (which has generally lower management fees than retail funds) by pooling together the funds of thousands of other small investors.

Platforms have become a vital and valuable part of investment fund manager operations and are often a prime target for takeover activity within the managed funds industry as their sale provides a ready access to investors. Given the role that platforms play in linking retail investors to the wholesale markets, ABS has determined that all investment funds on a platform are considered retail funds and therefore in scope for the investment funds classifications in the ASNA.

- **Custodians** These are financial auxiliaries that hold securities for guaranteed safe keeping on behalf of clients such as investment managers and institutional pension funds. The services which they provide on behalf of clients include collection of income on custodial securities, settlement of transactions, investment of cash overnight, provision of accounting reports, on-line reporting, global custody and securities lending. They act on the instructions of their clients to buy/sell a security, but are not involved in the decision making of choosing investments to buy/sell. They also provide other administration services such as portfolio valuation and production of financial statements.

There are only a relatively small number of custodians in Australia, with the Top 10 custodians covering a significant proportion of institutional pension fund assets. In the past, they have been considered a source of data for investment funds especially given their sophisticated systems would seem to support the detailed nature of the ANA data requirements. However it is difficult to ascertain the level their total holdings on behalf of retail investment funds and so ABS does not directly survey custodians in regard to domestic investment funds, but does so for overseas investment by funds in and out of Australia. However it is assumed that investment fund managers would have to consult their custodians to provide the data ABS requires in regard to investment funds.

29. Theoretically ABS could gain data on investment funds from investment managers, custodians or platforms. As previously stated, ABS currently obtains data about retail investment funds directly from the investment fund manager because they are the responsible entity and the ABS can gain a complete listing from ASIC with each fund given a unique reference number (ARSN). This would seem to be the most accurate approach, given alternatives such as to approach to survey custodians or platforms could result in significant gaps or double counts in scope. However using the ASIC ARSN approach only covers retail funds as it does not cover purely wholesale trusts which are not required to be registered with ASIC. For this ABS must find an alternative approach as wholesale trusts with property and infrastructure assets are believed to be a significant portion of the pension fund asset portfolio. One approach to address this gap has been ABS and its Tripartite partners to revise the pension funds forms and ask detailed information on their various trust/funds investments.
Terminology

30. ABS is but one of many organisations (both public and private) which publish data on managed investment funds in Australia. Rating agencies and private analysts produce regular measures of the industry and often it is difficult to reconcile the significant differences in the results, even though on the surface they are measuring broadly the same sector of the economy. One of the problems associated with investment funds statistics is the imprecise nature of the terminology used within the industry, in comparison to say the regulated banking industry. For example, in the industry the term investment funds can refer to retail funds only, or both retail and wholesale funds, or only unlisted funds; and similarly investment or fund managers can refer to a wide variety of organisations that ABS would classify to other sectors of the economy. This is because the managed funds industry rightly prefers to use the measurement concept of funds under management (FUM) to measure their industry rather than assets bought on behalf of clients – the SNA compliant data is available but needs to be asked in a clear and specific manner.

31. As a result, ABS in its forms has to address the difficult task of creating definitions which are generally agreed to and recognised by the data providers (investment managers) and will stand the test of time over multiple collection cycles. In addition, ABS has sought and received agreement from users and other official regulators to use these definitions so that ABS is able to effectively use their administrative data in compilation of the ASNA. ABS and its partners in official statistics have made inroads to this problem (e.g. the new pension fund forms which were recently introduced by APRA) but it is an ever evolving issue as new products and institution types are created.

Consent

32. Under the Census and Statistics Act 1901 ABS undertakes to ensure that individual record data cannot be derived if there are few providers in a particular cell of a data release. Occasionally, given the diverse nature of investment funds a particular cell has to be confidentialised which, if prevalent, will reduce the usefulness published data. This is an ongoing problem that ABS has had to address by finding a balance between releasing data at a level of detail that is useful to users, and not riddled with confidential cells.

Specific data issues

33. Specific measurement issues differ depending on whether investment funds are listed or unlisted and whether they invest in the financial or property markets.

1) Unlisted investment funds.

a) Research undertaken by ABS has determined that ABS data on unlisted funds is under represented compared to preliminary data available from ASIC which is due to the problem of ABS lagging in maintaining an up to date register of funds. However now that ASIC has an electronic version of their registered funds, the solution may be to obtain a regular listing and require investment managers to report for all their funds, by type of fund. This is achievable but it also requires significant investment by ABS on dedicated and appropriately trained staffing resources given the complexity of the funds being measured. At present ABS is lagging in this area after resources have been preoccupied with introducing 2008SNA standards which resulted in a new suite of forms which in turn resulted in associated new systems and revisions to time series. However resources allocated for future work programs should address this issue.
b) Another issue relates to measuring unlisted property funds. While frame maintenance issues are similar to those of other unlisted funds, its investment managers are more aligned to the property development industry rather than the financial funds management industry. There is the continuing problem of terminology used in the property markets may not line up with that used in the financial sector; and issues surrounding methodologies and frequencies of property valuations in unlisted markets may prove to be problematic if market values are to be obtained.

c) The demarcation between retail and wholesale trusts: It is a difficult line to draw between these, especially with wholesale funds which are not required to be registered with ASIC and whose major clients are pension funds.

i) There is a data confrontation problem if pension funds report significant investments in wholesale property/infrastructure trusts which have been tailor made for them, but those trusts are not reporting data to ABS.

ii) In the case of cash management trusts (a contributor to money market funds) should wholesale funds be included given they perhaps serve a different role than their retail counterparts. ABS currently includes wholesale CMTs but they are very difficult to track and often only discovered during one-on-one provider discussions.

d) This leads to the general question should there be a split between retail and wholesale funds; and if so what is a practical methodology which will be both theoretically sound and robust enough to reflect market developments into the foreseeable future. At present the demarcation exists due to the treatment of retained earnings (see para 14).

2) Listed investment funds

a) This category is very varied in their operations and markets they serve, but the unifying fact is that they are listed on the ASX. It primarily includes large REITs (both domestic and foreign properties), casino trusts, listed investment companies which primarily invest in equity, EFTs, and large infrastructure trusts. Given they are listed there are few problems with finding them or maintaining the frame for the survey. However detailed research is required with large trusts that delist to ascertain whether it has been wound up and assets sold; or whether it has become an unlisted trust which then requires further consideration as to whether it remains a retail fund or has been privatised which would result in distinctly different classification results.

b) Infrastructure and property trusts sometimes have a stapled security structure which means that two or more securities (usually a share and units in one or several trusts) are contractually bound together so that they have to be bought together. For example, a property trust may have its units stapled to the shares of the company that manages the trust’s properties. The trust is the legal owner of the property assets. The related company manages the fund and development opportunities, and charges the trust a fee. It is often difficult to classify this type of entity as stapled securities are inevitably complicated and each has its own unique structure.

c) A common reporting problem regarding these funds is that, despite assurances of confidentiality given by the ABS, several refuse to provide data to the ABS prior to releasing the data to their Boards and the ASX. In addition many of the property funds do not provide market estimates of their property holdings in the March and September quarters, only for those that coincide with the biannual ASX reporting in June and December and even then usually later than the data delivery cut-offs for these reference quarters. When both of these issues occur for large A$ billion funds it often results in distortions in the data series and major revisions in later data releases.
Recent and Future work

New APRA pension fund form

34. The most recent work completed relating to investment funds has been the revision to APRA’s pension funds’ form undertaken under by the Tripartite group (RBA, APRA and ABS). Pension funds are known to be a significant, if not the most significant, investor in investment funds generally, and especially in wholesale property/infrastructure funds. Consequently one significant change in the form has been to put the form on a more 2008SNA compliant basis by replacing the question relating to Investments with fund managers and looking through fund managers to the investment funds (i.e. trusts) they actually invest in. Specifically the following items are requested:

1. Units in trusts
   1.1. Cash management trusts
   1.2. Retail trusts (listed on the ASX)
      1.2.1. Property and infrastructure trusts
      1.2.2. Other trusts
   1.3. Retail trusts (not listed on the ASX)
      1.3.1. Property and infrastructure trusts
      1.3.2. Other trusts
   1.4. Pooled superannuation trusts
   1.5. Wholesale trusts with an Australian Registered Scheme Number
      1.5.1. Property and infrastructure trusts
      1.5.2. Other trusts
   1.6. Wholesale trusts without an Australian Registered Scheme Number
      1.6.1. Property and infrastructure trusts
      1.6.2. Other trusts
   1.7. Total units in trusts

The new items on the pension fund form should give ABS a better understanding of their investment in unit trusts, (investment funds), particularly investment in wholesale trusts which are not registered with ASIC.

Other work

35. ABS has researched the managed funds industry extensively using private and public sector sources, to gain a better understanding of the interactions of managed funds institutions (pension funds, investment funds) and their investment managers (including platforms) and custodians to ensure that our methodological approach is valid. As a result future work programs will have to:

1) devise a cost effective way to maintain the population lists for all types of investment funds, particularly the unlisted variety; with a regular report from ASIC seeming to be the most likely solution; and

2) revise the existing ABS SFI investment manager form:
   a) to gain a better data concerning wholesale investment funds without an ARSN; and
b) the replacement of *Source of Funds* section with a platform survey (using a sources and uses approach) which will give a more integrated view of how investors invest with investment managers, while simultaneously giving a better look at the asset profile and income and fees of both investment funds and investment managers.

**Conclusion**

36. The paper summarised the evolution of investment funds within the Australian financial system and its legislative infrastructure. The paper discussed the approaches taken by the ABS to measure this important financial institution within the Australian economy and some of the measurement challenges faced by the ABS. The paper concludes with some recent work undertaken and some possible future work to improve the measurement of investment funds in Australia.
Appendix 1

1001 Non-financial investment funds (111)

Non-financial investment funds are collective investment schemes that are constituted as legal entities which raise funds by issuing shares or units to the public. The proceeds are invested predominantly in long-term non-financial assets. Investment fund shares or units are generally not close substitutes for deposits.

Investment funds exhibit the following characteristics:

- Constituted as legal entities such as trusts or corporations;
- Assets owned by the investment fund;
- Pooling of investors’ monies to purchase non-financial assets (such as property or infrastructure);
- Issues its shares/units to investors;
- Investment decisions made by a licensed fund manager external to the fund;
- Open for public subscription, either via a prospectus or a distribution channel such as a platform;
- Investors are able to dispose of their units/shares within a reasonable period of time, on a well-developed secondary market, such as a stock exchange or readily accessible redemption facilities.

Includes

- Infrastructure funds (i.e. airports, pipelines)
- Listed and unlisted property trusts
- Property common funds

Exclusions/References

(a) Investment funds which predominantly invest in financial assets are included in the relevant classes within Group 214 Financial investment funds;

(b) Film funds which are included in Class 1009 Other non-financial corporations;

(c) Non-financial investment funds which do not have a sufficiently active secondary market are included in Class 1009 Other non-financial corporations;

(d) Financial investment funds which do not have a sufficiently active secondary market are included in Class 2199 Other financial intermediaries;

(e) Financial investment syndicates which are not open to public subscription are included in Class 2309 Money lenders and other captive financial institutions;

(f) Non-financial investment syndicates which are not open to public subscription are included in Class 1009 Other non-financial corporations;
Primary production funds are included in Class 1009 Other non-financial corporations;

Time-sharing funds holding predominantly financial assets are included in Class 2199 Other financial intermediaries; and

(i) Trusts with predominantly overseas property or infrastructure holdings are included in Class 2142 Non-MMF financial investment funds.

2141 – Money market investment funds (241)
Money Market Funds (MMFs) are collective investment schemes, constituted as legal entities that raise funds by issuing shares or units to the public. The proceeds are invested primarily in money market instruments, MMF shares/units, and transferable debt instruments with a residual maturity of less than one year, bank deposits and instruments that pursue a rate of return that approaches the interest rates of money market instruments. MMF shares can be transferred by cheque or other means of direct third-party payment. Because of the nature of the instruments the schemes invest in, their shares or units may be regarded as a close substitute for deposits.

Includes
- Cash common funds
- Cash management trusts

Exclusions/References
(a) Cash management accounts are included in Class 2141 Money market funds (MMFs).

2142 – Non-Money market investment funds (242)
Non-MMF investment funds are collective investment schemes that are constituted as legal entities which raise funds by issuing shares or units to the public. The proceeds are invested predominantly in long-term financial assets. Investment fund shares or units are generally not close substitutes for deposits.

Financial investment funds exhibit the following characteristics:
- Constituted as legal entities such as trusts or corporations;
- Pooling of investors’ monies to purchase financial assets;
- Assets owned by the investment fund;
- Issues its shares/units to investors;
- Investment decisions made by a licensed fund manager external to the fund;
- Open for public subscription, either via a prospectus or a distribution channel such as a platform;
- Investors are able to dispose of their units/shares within a reasonable period of time, on a well-developed secondary market, such as a stock exchange or readily accessible redemption facilities.

Includes
- Listed and unlisted equity trusts (domestic and international)
- Listed and unlisted mortgage trusts (unit trusts)
- Listed infrastructure trusts
- Listed investment companies
- Master trusts
- Non-cash common funds
- Trusts with predominantly overseas property or infrastructure holdings

Exclusions/References

(a) Investment funds which predominantly invest in non-financial assets are included in Class 1001 Non-financial investment funds;

(b) Financial investment syndicates which are not open to public subscription are included in Class 2309 Money lenders and other captive financial institutions;

(c) Non-financial investment syndicates which are not open to public subscription are included in Class 1009 Other non-financial corporations;

(d) Non-financial investment funds which do not have a sufficiently active secondary market are included in Class 1009 Other non-financial corporations;

(e) Financial investment funds which do not have a sufficiently active secondary market are included in Class 2199 Other financial intermediaries; and

(f) Pooled superannuation trusts are included in Class 2131 Pension Funds.
Appendix 2

Institutional units are classified to institutional sector, subsector, group and class in accordance with the Standard Institutional Sector Classification of Australia (SESCA).

1 NON-FINANCIAL CORPORATIONS

10 Non-Financial corporations
   100 Non-Financial Corporations
      1001 Non-Financial Investment Funds
         1009 Other Non-Financial Corporations
            Private Other Non-Financial Corporations
            Public Non-Financial Corporations
            National Public Non-Financial Corporations
            State and local Public Non-Financial Corporations

2 FINANCIAL CORPORATIONS

21 Financial Intermediaries
   211 Reserve Bank of Australia
      2110 Reserve Bank of Australia
   212 Depository Corporations
      2121 Banks
      2129 Other Depository Corporations
   213 Superannuation Funds and Insurance Corporations
      2131 Superannuation Funds
      2132 Life Insurance Corporations
      2133 Non-Life Insurance Corporations

214 Financial Investment Funds
   2141 Money Market Funds
      2142 Non-Money Market Financial Investment Funds
         219 Securitisers and Other Financial Intermediaries
            2191 Securitisers
            2199 Other Financial Intermediaries

22 Financial Auxiliaries
   220 Financial Auxiliaries
      2200 Financial Auxiliaries

23 Captive Financial Institutions and Money Lenders
   230 Captive Financial Institutions and Money Lenders
      2301 Central Borrowing Authorities
      2309 Money Lenders and Other Captive Financial Institutions
3 GENERAL GOVERNMENT
   30 General Government
      300 General Government
         3000 General Government
            National General Government
            State and Local General Government

4 HOUSEHOLDS and NON-PROFIT INSTITUTIONS SERVING HOUSEHOLDS
   40 Households
      400 Households
      4000 Households

6 REST OF THE WORLD
   60 Rest of the World
      600 Rest of the World