

Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019

BC Invest

Version 2.0

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Policy Document Number: PD10030



Contents

1	INTRODUCTION	1
1.1	Purpose	1
1.2	Obligations	1
1.3	Application	1
1.4	Review	Error! Bookmark not defined.
1.5	Approval	1
2	COMPLIANCE TO OTHER POLICIES AND REGULATORY REQUIREMENTS	1
3	TARGET MARKET DETERMINATION	3
4	APPROVALS OF TARGET MARKET DETERMINATION	ERROR! BOOKMARK NOT DEFINED.
5	DISTRIBUTION OF PRODUCT	9
6	MARKETING OF PRODUCT	10
7	EXEMPTIONS TO THIS POLICY	11
8	GLOSSARY	11

1 Introduction

1.1 Purpose

This document (**DDO Policy**) sets out BC Invest's (BC Invest, us, we, our) framework for the design and distribution of its products.

The DDO Policy details the approach adopted by BC Invest to ensure it satisfies its obligations with respect to the Design and Distribution laws (Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (DDO) from 5 October 2021.

This is to include at a minimum:

- Product Design;
- Developing Target Market Determinations (**TMD**) for each Product;.
- Reviewing and monitoring TMDs for each product;
- Product distribution obligations;
- Notifying ASIC of significant dealings;
- Record-keeping; and
- Reviewing this DDO Policy

1.2 Consequences of non-compliance

As well significant reputational and financial impact to BC Invest, breaches of this policy may include range of consequences including:

- civil and criminal penalties;
- stop orders, which restrain particular conduct in relation to a product;
- product intervention orders to temporarily prevent the distribution of a product;
- recovery of damages by consumers; and
- a court declaration that a contract is void.

1.3 Application

This policy applies to all employees of BC Invest and they must be familiar with and follow this policy and the procedures set out in it.

All requests by an Employee to change of Product must be directed to the Product Manager in the first instance.

1.4 Approval

This policy has been approved by the CEO of BC Invest.

2 Compliance to other policies and regulatory requirements

This policy should be read in conjunction with the other policies of BC Invest.

The objective of this policy is to meet the regulatory requirements of ASIC or as listed in Annexure B

3 Product Design

Each step within the Product Design stage must be completed and signed-off by the relevant stakeholders as detailed in the relevant section of Annexure A – Roles and Responsibilities of Key Stakeholders.

3.1 Product Design Stage

BC Invest will conduct an initial assessment on each financial product (both existing and proposed) to ensure it has been designed in a way that is likely to be consistent with the likely objectives, financial situations and needs of consumers of the class of consumers for whom the product is intended. To assist us with completing this assessment we will consider consumer outcomes for past or similar products including complaints data, customer and distributor feedback, and any regulator commentary. We will also undertake the following activities:

- a) reviewing other similar products that exist in the market, and market perceptions and performance of those products;
- b) interviewing those people who may fall into the target market;
- c) interviewing distributors of similar products; and/or
- d) considering analytics and user behaviour data of a similar financial product.

When designing our products we will give particular consideration to the likely outcomes for consumers who acquire the product, including by considering the following:

- a) Our existing knowledge and experience on how our products perform in the hands of consumers.
- b) Any potential vulnerabilities of consumers within the target market.

3.2 New Products

For new financial products, we will undertake the following steps:

- a) identify a class of consumers that are likely to have objectives, financial situations and needs in common that might be met by a financial product;
- b) design and develop the product, including its key attributes so that it is likely to satisfy the likely objectives, financial situation and needs of the class of consumers (i.e. the target market);
- c) analyse potential distribution methods for the product to choose distribution channels which are likely to result in distribution of the product to the target market;
- d) undertake robust testing of the product prior to launch to ensure that the product performs and operates as intended; and
- e) determine how consumer outcomes will be measured and monitored when the product is being distributed, given our obligation to carry out regular reviews. For example, we may monitor the performance of the product and consumer outcomes by considering complaints and feedback, as well as analysing value and transaction data for each product to ensure the product features and key attributes remain appropriate for the target market and deliver value to consumers.

3.3 Existing Products

For existing products that continue to be issued to consumers, we will undertake the following steps:

- a) establish a target market by assessing the product (including its key attributes) and the consumer objectives, financial situation and needs for which the product (including its key attributes) is likely to be appropriate;
- b) review existing distribution arrangements for the product to determine whether it is reasonable to conclude that the product is likely being distributed to its target market;
- c) where the product (including its key attributes) is not likely to be consistent with the objectives, financial situation and needs of a definable target market, or where its method of distribution is likely to result in sales of the product outside its target market, redesigning the product and/or the distribution arrangements, or ceasing distribution of the product; and
- d) determine how consumer outcomes will be measured and monitored over time, given our obligation to carry out regular reviews. For example, we may monitor the performance of the product and consumer outcomes by considering complaints and feedback, as well as analysing value and transaction data for each product to ensure the product features and key attributes remain appropriate for the target market and deliver value to consumers.

3.4 Product Options

Any “add-on” or “optional” features must also be considered as part of the product design stage as optional features may change the target market for the product. Products with options may have multiple sub-target markets depending on the options(s) selected. Any add-on or optional features that we offer must be suitable for the relevant product target market and must only be offered through appropriate distribution channels.

Products applications will be option neutral to ensure that consumers are not influenced by default selections. Product associated material will provide consumers with sufficient detail to make informed choices.

4 Developing Target Market Determinations

Each step associated with Developing TMDs must be completed and signed-off by the relevant stakeholders as detailed in the relevant section of Annexure A – Roles and Responsibilities of Key Stakeholders.

4.1 Purpose

BC Invest must make a TMD for each Product it issues. A TMD is a written document that describes:

- a) the class of consumers for whom a particular product is likely to be appropriate;
- b) the product features or ‘key attributes’;
- c) how the product may be distributed; and
- d) when the TMD will be reviewed and the information that we require from distributors to identify the need for and conduct reviews.

The development of the TMD requires us to consider and plan how the product will be distributed so that it reaches consumers in the target market. It also serves as a reference point for distributors (both internally and third parties) to comply with their distribution obligations.

A TMD must meet:

- a) the 'content requirements'; and
- b) the 'appropriateness requirements'.

4.2 Overview of Content Requirements

To satisfy the content requirements, we will develop a TMD for each product that:

- a) is in writing;
- b) describes the class of consumers that comprises the target market for the product (**target market**)
- c) specifies any conditions and restrictions on distribution of the product (**distribution conditions**)
- d) specifies events and circumstances that would reasonably suggest the TMD is no longer appropriate (**review triggers**);
- e) specifies reasonable maximum review periods (**review periods**).
- f) specifies when the distributor should provide the issuer with information about the number of complaints about the product; and
- g) specifies the kinds of information the issuer will need to promptly identify that a TMD may no longer be appropriate, along with:
 - i. which distributors should provide those kinds of information; and
 - ii. the reporting periods for when that information should be provided by the distributor to us.

4.3 Overview of Appropriateness Requirements

To satisfy the appropriateness requirements, we will develop a TMD for each product that:

- a) details the likely objectives, financial situation and needs of consumers in the target market;
- b) contains a description of the product, including its key attributes;
- c) set out an explanation of why the product, including its key attributes, is likely to be consistent with the likely objectives, financial situation and needs of consumers in the target market; and
- d) explains why the distribution conditions make it likely that the consumers who acquire the product will be in the target market.

4.4 Setting the Target Market

When considering the objectives, financial situation and needs of the target market, we will take into account factors such as:

- a) income level and type of income;
- b) employment status;

- c) residential status;
- d) life stage;
- e) purpose;
- f) product variations and appropriateness of fee level for specific products;
- g) exclusion criteria;
- h) the product eligibility criteria; and
- i) any other relevant factors as determined by us from time to time.

In describing the key attributes of the product we will include the following information:

- a) product terms;
- b) features and attributes;
- c) variation in attributes, including add-on or optional features;
- d) eligibility criteria; and
- e) any other relevant factors as determined by us from time to time.

Our conclusion that the product is likely to meet the likely objectives, financial situation and needs of consumers in the target market will be based on our critical assessment and testing of the product.

We will consider the following as part of our process of critically assessing each product:

- a) Purpose
 - (i) What is the purpose of the product?
 - (ii) Is it fit for purpose?
 - (iii) Does the product (including its key attributes) fulfil a well-founded need for consumers in the target market?
 - (iv) Does the product include features or attributes that are inconsistent with the objectives, financial situation or needs of consumers in the target market?
 - (v) Does the product (including its key attributes) benefit the consumers in the target market?
- b) Past outcomes
 - (i) Has the product (including its key attributes) resulted in good outcomes for consumers in the target market in the past?
 - (ii) Did it deliver what was promised?
 - (iii) Who has benefited from this product or this type of product in the past?
 - (iv) Did the product meet the needs of those to whom it was distributed?
 - (v) What does the data show were the ongoing benefits, risks and outcomes for consumers?
- c) Likely future outcomes

- (i) How is the product likely to perform in the hands of the consumers in the target market?
 - (ii) Is the product likely to deliver what is promised?
- d) Refinement of target market and/or product
- (i) Does the product need to be redesigned or changed to be suitable for consumers in the target market?
 - (ii) Does the target market need to be narrowed?

We will consider the following as part of our process of testing each product:

- a) Consumer feedback, including complaints;
- b) Default rates;
- c) Repayment rates; and
- d) Transaction data.

4.5 Formulating Distribution Conditions

To ensure that distribution of each product is directed towards consumers in the target market, we will specify the following in each TMD:

- a) clear, tangible and appropriate conditions and restrictions on distribution of the financial product (**distribution conditions**); and
- b) an explanation of why these distribution conditions and restrictions will make it more likely that the consumers who acquire the product are in the target market.

We will consider the following factors in determining appropriate distribution conditions:

- a) the size of the relevant target market;
- b) the experience and capabilities of distributors; and
- c) the functionality and integrity of electronic distribution channels.

As our products have wide target markets and our brokers will be subject to Best Interests Duty obligations, generally fewer distribution conditions are required to ensure that our products are sold in accordance with the relevant TMD.

If we become aware that the distribution conditions for a product are inadequate (for example, where significant distribution is occurring outside the target market), we will:

- a) amend the relevant TMD to set out additional distribution conditions to ensure that such distribution does not occur; or
- b) cease distribution.

For the avoidance of doubt, ceasing distribution in these circumstances does not extend to excluded conduct.

4.6 Review Triggers

Review triggers are events and circumstances that would reasonably suggest that the TMD is no longer appropriate. They are a prompt to stop distributing the financial product (including informing our third party distributors) until the TMD is reviewed.

To comply with this requirement we will include the following review triggers in each TMD:

- a) a significant dealing of the product to consumers outside the target market occurs;
- b) a significant number of complaints are received from customers in relation to the product;
- c) we identify consumer harm arising from the product
- d) a significant number of defaults or bad debts occur; or
- e) there is a material change to the product or the terms and conditions.

We will use our own data along with data provided by distributors to determine whether or not a review trigger has occurred and subsequently determine whether the TMD remains appropriate.

4.7 Review Periods

In addition to carrying out a review in response to a review trigger, we will also carry out periodic reviews of each TMD. Each TMD will specify the frequency of periodic reviews and the review period must be reasonable having regard to the product.

We have considered the nature of each product, the market in which it is distributed and risk of detriment to consumers if the TMD is not promptly reviewed and determined that annual TMD reviews are appropriate for each of our products. If any of these factors change, we will reassess whether the review period should change.

4.8 Information from Distributors

In order to promptly identify when a TMD requires review, each TMD will specify the kinds of information we need from our distributors.

Taking into account the risk of consumer harm occurring over the specified reporting periods and the administrative demand placed upon distributors, we have determined that distributors will be required to report to us:

- a) within 10 business days of receipt of any complaint about a product.
- b) every 6 months about the number of complaints received in relation to our products.
- c) as soon as practicable and within 10 business days, any significant dealing in the product outside the target market including a description of the significant dealing.

4.9 Availability of TMDs

Each TMD will be made publicly available free of charge.

5 Reviewing Target Market Determinations

Each step associated with reviewing TMDs must be completed and signed-off by the relevant stakeholders as detailed in the relevant section of Annexure A – Roles and Responsibilities of Key Stakeholders.

5.1 Obligation to review

To ensure that each TMD remains appropriate, we must review each TMD:

- a) periodically;
- b) in response to review triggers; and/or
- c) when other events or circumstances reasonably suggest that the TMD is no longer appropriate.

5.2 Conduct of review

In conducting a review of a TMD, we will take into account all available information on the relevant product using data collected internally and from our distributors, including:

- a) information we hold about the product and its distribution, for example:
 - i. volume of sales;
 - ii. percentage of sales to consumers who are not in the target market; and
 - iii. conversion rates.
- b) information we hold about consumer behaviour and outcomes, for example:
 - i. consumer and transaction data;
 - ii. results of multi-method consumer testing;
 - iii. assessment and measurement of product design and performance;
 - iv. impact of choice architecture on consumer choice and outcomes; and
 - v. purchase decisions and use of product.
- c) information collected from distributors, including:
 - i. the information that we have specified in the TMD that the distributor must provide to us; and
 - ii. general product feedback and consumer complaints;
- d) information collected from consumers and consumer advocates, including general product feedback and complaints, as well as the outcomes of those complaints based on internal dispute resolution information; and
- e) information from other sources about consumer outcomes, including from the Australian Financial Complaints Authority (**AFCA**).

Periodic reviews will be completed by the date specified in the TMD. A review of a TMD arising from the occurrence of a trigger event will be completed as soon as reasonably practicable. Where the

review is not completed within 10 business days, we will place further distribution of the product on hold until the review has been completed and any changes to the product design, target market and/or distribution channels have been implemented.

5.3 Outcomes of review

Possible outcomes from our reviews include:

- a) continuing to offer the product without amendment to the product features and distribution channels;
- b) continuing to offer the product after changing the product design, target market and/or distribution channels; or
- c) ceasing to distribute the product.

6 Distribution of Product

Each step within the Distribution of Product stage must be completed and signed-off by the relevant stakeholders as detailed in the relevant section of Annexure A – Roles and Responsibilities of Key Stakeholders.

6.1 Overview of obligations

Product may only be distributed by BC Invest Distribution Partners or BC Invest directly via approval from the Product Committee. Product may only be distributed by Distributor Partners that have successfully completed the required onboarding procedures.

We must take reasonable steps that will, or are reasonably likely to, result in the product being distributed to the relevant target market (other than in relation to excluded conduct – distribution conducted by brokers subject to Best Interest Duty obligations). In assessing what reasonable steps need to be taken in the circumstances, we will consider the following factors:

- a) **Risk** – the likelihood of the distribution being inconsistent with the TMD;
- b) **Harm** – the nature and degree of harm that might result from the financial product being distributed otherwise than in accordance with the TMD; and
- c) **Mitigation steps** – steps that can be taken to eliminate or minimise the likelihood of the distribution being inconsistent with the TMD and the harm that might result.

6.2 How we will meet our obligations

In order for us to meet our obligation to take reasonable steps we will:

- a) ensure each TMD contains clear and appropriate distribution conditions and restrictions that make it likely that the consumers who acquire the product are in the target market;
- b) ensure that all marketing and promotional material is consistent with the relevant TMD and assists with directing distribution towards the relevant target market;
- c) conduct the required due diligence in the selection of all distribution channels, methods and third party distributors. This includes:

- i. conducting an assessment of all existing and proposed distribution channels and methods to ensure they are consistent with, and appropriate for, the relevant TMD;
 - ii. considering past conduct and performance of internal staff and third party distributors to determine the likelihood of distribution conduct being inconsistent with the relevant TMD; and
 - iii. requiring all third party distributors to enter into a formal accreditation process which will incorporate training, monitoring and reporting requirements;
- d) implement appropriate supervision and monitoring of distribution to ensure it remains consistent with the relevant TMD. Specifically, we will:
- i. collect and analyse appropriate information at sufficient intervals as detailed in the relevant TMD to detect patterns in distribution as compared with the target market;
 - ii. assess the performance of the distribution methods through various measures, including feedback and complaints; and
 - iii. in the event we identify distribution that is inconsistent with the relevant TMD, undertake one or more of the following steps (as appropriate) :
 - require the distributor to immediately cease distributing and/or promoting a product in a particular way, by (were necessary) modifying distribution conditions and by contacting the distributor to discuss further distribution of the product;
 - review the adequacy of information and training we provide to the distributor;
 - where necessary, cease distribution of the product through one or more distributors circumstances.
- e) ensure that no conflict of interest exists that could influence distribution that is inconsistent with the relevant TMD. We will not provide any incentives which may encourage staff or third party distributors to distribute in a manner that is inconsistent with the relevant TMD.
- f) provide internal staff and third party distributors with sufficient information and training to assist them with meeting their obligations to ensure distribution is consistent with the relevant TMD. In determining what will be sufficient, we will have regard to the type of information, knowledge and experience distributors of that type already have.

7 Marketing of Product

Any marketing of the Product must be approved by the Product Manager, Marketing Manager, and the Compliance Manager (or their delegate). This approval is to include related promotional materials and marketing campaigns to ensure they are consistent with the TMD.

The Product Manager must monitor the marketing performed by Distribution Partners to ensure alignment to the TMD and take corrective action if not aligned.

8 Record Keeping

Record keeping must be completed and maintained by the relevant stakeholders as detailed in the relevant section of Annexure A – Roles and Responsibilities of Key Stakeholders.

8.1 Requirements

We will keep complete and accurate records of decisions made in relation to each TMD and associated reviews, together with the reasons (and underlying data) for those decisions, for up to seven years. Specifically, the following records are to be maintained for a minimum period of 7 years:

- Product TMD documents
- Approvals of TMD documents
- Approval of Marketing of Products and related marketing activity
- Approval of Product distribution to Distribution Partners
- Documents confirming the periodical review of the Product as defined in the TRD

9 Reviewing this Policy

Reviewing this DDO Policy must be completed and signed-off by the relevant stakeholders as detailed in the relevant section of Annexure A – Roles and Responsibilities of Key Stakeholders.

9.1 Requirements

We will regularly review the DDO Policy by the end of March annually to ensure these arrangements remain effective. In some cases, such as when compliance issues have arisen (e.g. major breaches or repeated compliance failures), we will procure an independent external review.

We will also review the DDO Policy when there are material changes to our obligations, business or the environment in which we operate. To facilitate this, we will continually monitor and identify any changes that may impact the effectiveness of the DDO Policy.

10 Glossary

For the purpose of this policy the following definitions apply:

- BC Invest** means BC Securities Finance Pty Ltd, BC Finance Services Pty Ltd and as applicable other entities of the BC Invest group that directly received goods or services from a Vendor.
- Compliance Manager** means the Chief Credit and Risk Officer or their delegate
- Distribution Partner** means approved distributors of the BC Invest Products
- Employee** means and employee or contractor of BC Invest

- (e) **Excluded conduct** means
 - (i) an excluded dealing; or
 - (ii) providing personal advice.
- (f) **Excluded dealing** means a dealing in a financial product that consists of arranging for a retail client to apply for or acquire the product, where the arranging is undertaken:
 - (i) by a person, or by an associate of a person (i.e. brokers subject to Best Interests Duty obligations (BID Broker)); and
 - (ii) for the purpose of implementing personal advice that the person has given to the retail client (i.e. aggregators that do no more than simply facilitate the implementation of personal advice provided by a BID broker and BC Invest where it is merely implementing the personal advice provided by the BID broker).
- (g) **Marketing Manager** means the Head of Marketing (or equivalent) or their delegate
- (h) **Product** means the products covered under the DDO requirements and distributed by BC Invest or its approved Distribution Partners
- (i) **Product Committee** means delegate(s) of the CEO responsible for approval of Product
- (j) **Product Development Reference Guide** means a standard operating procedure managed by the Product Manager for the release and monitoring of Product
- (k) **Product Manager** means the Employee delegated by the CEO who is responsible for the management of the Product Lifecycle

Document Control

Version	Date	Description	Author	Approved	Policy Owner
2.0	07/10/2021	Original Version	Neill Rose-Innes	CEO	Product Manager

Annexure A – Roles and Responsibilities of Key Stakeholders

Oversight - Role and Responsibility	Key Stakeholders
DDO policy owner	<ul style="list-style-type: none"> Product Committee BC Compliance
Audit of all processes in the Design and Distribution Obligation Policy	<ul style="list-style-type: none"> BC Compliance
Notifying ASIC of Significant Dealings	<ul style="list-style-type: none"> BC Compliance
Record keeping of Audit Findings and Audit Reports	<ul style="list-style-type: none"> BC Compliance

Operational - Role and Responsibility	Key Stakeholders
Product Design	<ul style="list-style-type: none"> Product Owner (Mortgages)
Developing and Reviewing TMDs	<ul style="list-style-type: none"> Product Owner (Mortgages) BC Credit BC Compliance (sign off only)
TMD trigger reporting & review	<ul style="list-style-type: none"> Product Manager Product Committee Product Owner (Mortgages) Wholesale Distribution Director Distribution partners
Complaints review and impact on TMD	<ul style="list-style-type: none"> Product Owner (Mortgages) Product Committee BC Compliance (for providing Complaints data only)
Notify BC Compliance of significant Dealings	<ul style="list-style-type: none"> Product Committee Product Owner (Mortgages)
Product Distribution Obligations	<ul style="list-style-type: none"> Product Owner (Mortgages) Wholesale Distribution Director Group Executive Director BC Credit (for notification of product suitability)
Distribution partner accreditation and competency assessment	<ul style="list-style-type: none"> Wholesale Distribution Director Group Executive Director BC Credit

	<ul style="list-style-type: none"> • BC Compliance (for KYC of Distribution Partners only)
Distribution channel TMD education	<ul style="list-style-type: none"> • Wholesale Distribution Director • Group Executive Director
Verification of compliance to the application to BC Credit Policy and TMD	<ul style="list-style-type: none"> • Distribution partners • BC Credit
Marketing	<ul style="list-style-type: none"> • Product Manager • Marketing Manager • BC Compliance (for reviewing of marketing collaterals only) • BC Legal (for reviewing of marketing collaterals only)
Record keeping of product design decisions and all items listed in Section 8.1	<ul style="list-style-type: none"> • Product Committee • Product Owner (Mortgages) • Marketing Manager • Wholesale Distribution Director

Appendix B – Regulatory Guidance

Date	Description
07/10/2021	ASIC RG274 <i>The Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (DDO)</i>
