



# Product Lifecycle and Design and Distribution Obligations

Passed and coming into effect on April 5 2021

## What does it mean?

The design and distribution obligations will create a fundamental shift in how products are distributed to retail consumers in the Australian market. Issuers of financial products must create target market determinations for each product, provide rationale for the selection of appropriate distribution channels, and review these determinations on an ongoing basis. Distributors of financial products will be required to put in place reasonable steps to ensure products are being distributed in accordance with their target market determination and provide information to the issuer of the product.

## Where do the obligations come from?

The design and distribution obligations are in response to two findings from the financial systems inquiry as well as themes from the Financial Services Royal Commission Final Report (Final Report);

- The current system relies too heavily on disclosure which is ineffective for many reasons including; low financial literacy, customer disengagement and complexity of documents and,
- Financial advice is not available to all and may not be of good quality.

The new obligations are designed to address these findings.

## Which products are impacted?

The obligations will apply to products for retail consumers. These obligations are relevant for products which are governed by the Corporations Act 2001 as well as the ASIC Act 2001, which includes credit products. Specific exclusions from the legislation include: MySuper, an ordinary share in a company, securities issued through an employer share scheme, and margin lending.

## What could I do now?

Organisations have two years to comply and should start asking themselves questions around what this legislation means for them and start to understand what the impact will be. Some questions that should be asked include:

1. What are the organisation's obligations under the legislation (issuer, distributor or both)?
2. What enhancements to issuer/distributor communication are needed?
3. How are complaints about products managed and communicated to the issuer?
4. How will this change how distributors engage with their clients?
5. For issuers, has a risk assessment of distributors been performed?
6. What is the current product governance framework and how will it need to change?
7. What system changes are required to comply with the requirements with respect to setting, communicating and monitoring the target market determinations?
8. How will this impact the marketing strategy of products?
9. How do you enhance your current distribution model to collect the additional information required to meet the new obligations?

In a post Final Report environment, all organisations should be assessing how to reset their standards to ensure their business model, culture and governance are all in the best interest of their customers. These obligations are a stepping stone for the industry to find its new normal in a customer centric world.

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