**ASIC CLASS ORDER [CO 11/555]**

**EXPLANATORY STATEMENT**

Prepared by the Australian Securities and Investments Commission

*Corporations Act 2001*

The Australian Securities and Investments Commission (***ASIC***) makes [CO 11/555] under paragraphs 601QA(1)(b), 926A(2)(a), 992B(1)(a) and 1020F(1)(a) of the *Corporations Act 2001* (the ***Act***).

Paragraph 601QA(1)(b) of the Act provides that the Australian Securities and Investments Commission may declare that Ch 5C of the Act apply to a person as if the provisions were omitted, modified or varied in a certain way.

Paragraph 926A(2)(a) of the Act provides that ASIC may exempt a person from a provision of Pt 7.6 of the Act (other than Divs 4 and 8).

Paragraph 992B(1)(a) of the Act provides that ASIC may exempt a person from a provision of Pt 7.8 of the Act.

Paragraph 1020F(1)(a) of the Act provides that ASIC may exempt a person from a provision of Pt 7.9 of the Act.

**Background**

On 20 October 2009, the Full Federal Court held in *Brookfield Multiplex Ltd v International Litigation Funding Partners Pte Ltd* [2009] FCAFC 147 that a funded representative action and solicitors’ retainers for two representative proceedings against Brookfield Multiplex Ltd in the Federal Court were a managed investment scheme that should have been registered for the purposes of the Act.

On 4 May 2010, the Government announced that it would make regulations exempting representative proceedings and proof of debt arrangements from:

(a) the definition of managed investment scheme in s9 of the Act; and

(b) Pts 7.6, 7.7, 7.8 and 7.9 of the Act as long as there are appropriate arrangements in place to manage conflicts of interest.

ASIC executed [CO 10/333] on 5 May 2010. [CO 10/333]:

1. provides for Ch 5C to apply as if the definition of a managed investment scheme in s9 of the Act were varied to exclude a litigation funding scheme and a proof of debt funding scheme.
2. exempts funders, lawyers and their representatives and other persons from the requirements to hold an AFSL or act as an authorised representative of a licensee to provide financial services associated with a litigation funding scheme and a proof of debt funding scheme.
3. exempts from the requirement comply with the disclosure provisions in Pt 7.9 of the Act in relation to interests in a litigation funding scheme and a proof of debt funding scheme.

On 15 March 2011, the New South Wales Court of Appeal held in *International Litigation Partners Pte Ltd v Chameleon Mining NL* [2011] NSWCA 50that a litigation funding agreement was a financial product under s763A of the Act because it is a facility through which financial risk is managed.

The relief in [CO 10/333] originally had effect until 30 September 2010. The transitional relief was extended to 30 June 2011.

**Purpose of [CO 11/555]**

[CO 11/555] will further enable the temporary operation of a litigation funding scheme and a proof of debt funding scheme that is characterised as a managed investment scheme under the Act without compliance with the requirements of the Act until 30 September 2011.

[CO 11/555] also provides transitional relief from the requirements in the Act for a litigation funding arrangement and a proof of debt funding arrangement that is otherwise characterised as a financial product, or an interest in a financial product, including an interest in a single member arrangement that is characterised as a financial product.

This is to allow additional time for the Government to implement their legislative reform.

**Operation of [CO 11/555]**

[CO 11/555] varies [CO 10/333] to exempt funders, lawyers and their representatives and other persons from the requirements to hold an AFSL or act as an authorised representative of a licensee to provide financial services associated with a litigation funding arrangement or a proof of debt funding arrangement to the extent the arrangement, or an interest in the arrangement, is a financial product.

[CO 11/555] also varies [CO 10/333] to exempt a person from the requirement to comply with the disclosure provisions in Pt 7.9 of the Act in relation to a litigation funding arrangement or a proof of debt funding arrangement to the extent the arrangement, or an interest in the arrangement, is a financial product.

[CO 11/555] varies [CO 10/333] by replacing 30 June 2011 in paragraph 10 with 30 September 2011.

[CO 11/555] does not apply to litigation funding arrangements or proof of debt funding arrangements that already have the benefit of individual relief from ASIC while that individual relief applies.

**Consultation**

ASIC did not undertake consultation with respect to [CO 11/555] as it is provides relief only for a short period pending implementation of the Government’s decision by regulation.