

Top 5 Tips for Preparing Target Market Determinations (TMDs)

The design and distribution obligations (**DDO**) are designed to ensure that product issuers adopt a consumer-centric approach when designing (and distributing) products.

Before distributing a product, a product issuer must make a target market determination (**TMD**) for that product.

What makes an appropriate TMD will differ, depending on the nature of the financial product you are going to issue and your intended distribution approach.

ASIC's current surveillance on product issuers and their TMDs has resulted in some issuers receiving multiple interim stop orders to date.

We hope you find the following tips helpful when preparing and reviewing your TMD.

1. Templates can be a great starting point – but think carefully before relying on a template

We all like to rely on a good template, but when it comes to DDO, you need to ensure that you read and consider every last word in any template you might use.

Don't treat a template as a box-ticking exercise.

There may be certain parts of the template that just aren't appropriate for your offering, or if the template you're using involves you considering certain pre-populated options, make sure you choose the right one. If none of those options seem right to you, then don't include any of those options.

For example, if you're a fund manager and your fund doesn't offer capital stability (like most funds), don't tick a box suggesting your

fund suits a target market of clients seeking capital stability.

2. Take great care when determining who's in your target market

All product providers need to take care when determining who is in their target market, but those product issuers who offer high risk products need to take even greater care.

If you offer highly speculative, high-risk products, your target market won't be most of the adult population at large. You'll have a narrow target market. If your product shouldn't have a wide target market:

- make sure you don't propose a wide target market in your TMD. Describe your target market accurately and carefully; and
- where you propose a narrow target market (or in any case!), make sure you're not distributing your financial product to consumers outside that target market.

3. Address why the product is likely to be consistent with the likely objectives, financial situation and needs of the consumer

Your TMD needs to address why the features and characteristics of your product (which ASIC refers to as 'key attributes' in RG274) are likely to be consistent with the likely objectives, financial situation and needs of the consumer.

This is something that you should have already addressed during the design phase for

your financial product, but make sure you set out why your product meets these requirements in your TMD.

4. Make sure your TMD meets all of the technical requirements

This may sound obvious, but your TMD certainly won't pass muster where it doesn't address the minimum prescriptive requirements that apply to TMDs. These include the following:

- describe the class of consumers that comprises the target market for the product;
- specify any conditions and restrictions on distribution (distribution conditions);
- specify events and circumstances that would reasonably suggest the target market determination is no longer appropriate (review triggers);
- specify reasonable maximum review periods;
- specify when the distributor should provide the issuer with information about the number of complaints about the product;
- specify the kinds of information the distributor must provide to the issuer to determine that a TMD may no longer be appropriate, along with:
 - which distributors should provide those kinds of information; and
 - reporting periods for when the information should be provided to the issuer.

5. Consider describing a 'negative' target market

Whilst it is not a firm legal requirement to describe a 'negative' target market in your TMD, documenting classes of consumers for whom a product is unsuitable may help demonstrate that the target market identified is otherwise appropriate. Determining classes of consumers for whom the financial product

is unsuitable can also be a useful guide for distributors in complying with their obligations to take reasonable steps in relation to distribution.

Still have questions?

If you have any questions, feel free to [contact our team](#).

Author: Michael Mavromatis, *Partner*

Contact us

W: www.hnlaw.com.au
E: info@hnlaw.com.au
Ph: +61 3 9670 8200

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