The Memorandum of Cooperation on the establishment and implementation of the Asia Region Funds Passport came into effect on 30 June 2016. Most recently, on 25 July 2017, the Joint Committee of the ARFP initiative published the first annual report, and a public consultation on guidance describing the host economy laws and regulations that will apply to passported funds.

Overview

Numerous countries within the Asia-Pacific (APAC) region are coming together to launch fund passporting schemes. These schemes allow approved investment funds that are domiciled in one country to be distributed in another participating country, and vice versa.

With a fund passporting scheme, an asset manager can, in theory, set up a fund once in a single domicile, and then achieve access to any other country that is in the same scheme.

There are currently three schemes¹ that have been introduced into the region but arguably the most ambitious is the Asia Region Funds Passport (ARFP) which contains the most number of markets and many in the industry have drawn parallels with the European UCITS² regime.

The ARFP is an important step in the further development of the region's fund management industry. An initiative spearheaded by the Asia-Pacific Economic Cooperation (APEC), the ARFP aims to create a regulatory arrangement for the cross border offer of collective investment schemes (CIS) in participating economies.

The ARFP is a component of the Asia-Pacific regional financial integration and is seen as important for regional financial markets to achieve economies of scale, greater depth and liquidity, and, ultimately, better support the region's economic development goals.

¹ In addition to the ARFP, the other fund passport schemes within Asia Pacific are the ASEAN Collective Investment Scheme (CIS) Passport and Mutual Recognition of Funds (MRF). The ASEAN CIS framework was launched in 2014 with Singapore, Malaysia and Thailand as participating countries. The MRF Scheme between Hong Kong and China was launched in 2015.

² UCITS (Undertakings for Collective Investments in Transferable Securities) provides a single framework for an investment fund to be distributed across the EU (and certain other markets) irrespective of its home domicile.
Representatives from Australia, Japan, Korea, New Zealand and Thailand signed a Memorandum of Cooperation (MoC) on the establishment and implementation of the ARFP, which came into effect on 30 June 2016. Additionally, the Joint Committee (JC) of this initiative agreed to engage other countries in Asia Pacific that are not participants in the ARFP scheme at the moment, including Singapore and Philippines.

Progress on detailed rules and operational arrangements has focused on determination of home rules versus host country laws and regulations, and incorporating amendments to country laws and regulations, where required, to achieve the ARFP’s objective of cross-border harmonization for CIS. The ARFP will commence once any two participating economies have completed the implementation process and implemented the necessary domestic arrangements, targeted to be by the end of 2017.

**Summary of Passporting Schemes in Asia Pacific**

<table>
<thead>
<tr>
<th>Participating Countries (Public Mutual Fund AuM as at December 2016*)</th>
<th>ASEAN Collective Investment Scheme (CIS) Passport</th>
<th>Mutual Recognition of Funds (MRF)</th>
<th>Asia Region Funds Passport (ARFP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore (US$60B)</td>
<td>Hong Kong (US$131B)</td>
<td>Australia (US$627B)</td>
<td></td>
</tr>
<tr>
<td>Malaysia (US$171.5B)</td>
<td>Mainland China (US$1,276B)</td>
<td>Japan (US$666B)</td>
<td></td>
</tr>
<tr>
<td>Thailand (US$108.9B)</td>
<td></td>
<td>Korea (US$179B)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thailand (US$149B)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Zealand (US$22B)</td>
<td></td>
</tr>
<tr>
<td>Total AuM</td>
<td>US$340.4B</td>
<td>US$1,407B</td>
<td>US$1,543B</td>
</tr>
<tr>
<td>Launch Date</td>
<td>August 2014</td>
<td>July 2015</td>
<td>End 2017 (Target date)</td>
</tr>
<tr>
<td>Approved Funds (as at Jul 2017)</td>
<td>6</td>
<td>50 (of which 8 are Northbound)</td>
<td>N/A</td>
</tr>
<tr>
<td>Current Status:</td>
<td>Little traction due to difficulties getting approval / registration for applicant funds and low investor demand</td>
<td>Small number of approved Northbound funds (i.e. HK funds selling into China) likely due to Chinese regulator concerns over capital outflows. Note: HK has since established similar MRF schemes with both Switzerland (December 2016) and France (July 2017)</td>
<td>Philippines, Singapore and other APAC countries are interested to join but concerns over tax neutrality remain (i.e. – equitable tax treatment for both offshore ARFP funds and local funds within the same jurisdiction)</td>
</tr>
</tbody>
</table>

* Source: Cerulli Associates, Reserve Bank of New Zealand, Ignites Asia

**Other Regional Passporting Initiatives**

In the spirit of the development of the region's financial markets, and specifically the CIS markets, two other related regional initiatives are the ASEAN CIS Framework and the China–Hong Kong Mutual Recognition of Funds (MRF) scheme.

**ASEAN CIS Framework**

On 25 August 2014, the Monetary Authority of Singapore (MAS), the Securities Commission of Malaysia (SC Malaysia), and the Securities and Exchange Commission, Thailand (SEC Thailand) launched the Association of Southeast Asian Nations (ASEAN) CIS Framework to facilitate cross-border offers of CIS to retail investors. The ASEAN CIS Framework was one of the stated initiatives undertaken by the ASEAN Capital Market Forum as part of the regional capital market integration plan endorsed by the ASEAN Finance Ministers in 2009. Under the terms of the ASEAN CIS Framework, fund managers based in Singapore, Malaysia and Thailand were able to offer CIS constituted and authorised in their home jurisdiction directly to retail investors in the other two ASEAN countries under a streamlined authorisation process. A set of common ASEAN Standards of Qualifying CIS was established with the stated aim of ensuring that participating fund managers have the necessary experience and track record in managing retail funds offered under the framework.

**China-Hong Kong Mutual Recognition of Funds (MRF)**

On 22 May 2015, the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission of Hong Kong (SFC) entered into a Memorandum of Regulatory Cooperation (MRC) in respect of the Mutual Recognition of Funds (MRF), which allows eligible Mainland and Hong Kong funds to be distributed in each other’s market, effective on 1 July 2015. The MRF was meant to allow Mainland and Hong Kong funds that meet the MRF eligibility requirements to follow streamlined procedures to obtain authorization or approval for offering to retail investors in each other’s market.

The MRF is expected to lay the foundation for the CSRC and SFC to jointly develop a fund regulatory standard, promote the integration and development of the Asian asset management industry, and encourage the transformation of Asian savings into cross-border investments. One of the aims of the MRF is to provide more diverse fund investment products to Mainland and Hong Kong investors, expand the business opportunities and enhance the international competitiveness of Mainland and Hong Kong fund management firms.
Key Milestones:
Asia Region Funds Passport and other Regional Passporting Initiatives

August 2014
Launches the ASEAN CIS Framework

July 2015
Launches the China-Hong Kong Mutual Recognition of Funds (MRF) scheme

September 2013
The ARFP Statement of Intent signed by founding members Australia, Korea, New Zealand and Singapore

April 2014
The ARFP’s consultation on proposed implementation arrangements

February 2015
Drafts the ARFP’s rules and operational arrangements

September 2015
Signs the Statement of Understanding on the establishment of the ARFP at the APEC Finance Ministers’ Meeting by founding members Australia, Korea, New Zealand who have now been joined by Japan, Philippines and Thailand
Note: Singapore chooses not to sign the Statement of Understanding as there is no commitment to address tax concerns which might be disadvantageous to Singaporean fund managers

April 2016
Signs the MoC of The ARFP by Japan, Australia, Korea and New Zealand

June 2016
The MoC of the ARFP enters into force; Thailand signs the MoC
Note: Philippines has yet to sign the MoC despite signing the Statement of Understanding

April 2017
The ARFP JC’s second face-to-face meeting in Tokyo, Japan

July 2017
Publication of first Annual Report and Guidance Consultation of the ARFP

End of 2017
Target commencement for the ARFP
What does the ARFP mean for global investment managers?

For a global investment manager looking to take advantage of the region’s fast growing fund market, the ARFP provides a sizable opportunity. “The ARFP has the potential to be a breakthrough for the funds management industry in the region” says Rohan Singh, Managing Director, Head of Asset Servicing, Asia Pacific, BNY Mellon. “Global fund managers with a long term Asia strategy should be considering its implications and developing an appropriate response.” However, there are also some challenges to be overcome that are similar to those which have plagued the other regional fund passport initiatives that have already launched. The following is a high level discussion on some of the potential benefits and challenges for global investment managers under the ARFP.

Benefits

Greater Access to Asian Markets

Many large global fund managers are already doing business indirectly in Asia, either through a subadvisory arrangement, a local acquisition or an offshore distribution. However, fund passporting offers an opportunity to expand by establishing locally domiciled funds targeted at local investors – especially in ARFP markets like Australia and Japan which are two of the biggest fund investor markets in the world. Passporting also makes it less costly and cumbersome for managers who are new to Asia to enter the marketplace. With the ARFP, fund managers will be freed from the task of navigating through the complex rules and requirements of each country in the region. Domiciling a fund in a single jurisdiction and achieving access to other countries under the AFRP lowers those barriers to entry.

Cost Savings

Fees are an important consideration for Asian investors who are known to be highly cost-sensitive. Through economies of scale, the ARFP should help reduce fund administration costs which can be subsequently passed onto investors. Assuming a fund manager is successful in using the ARFP to grow the size of their funds, fixed costs (e.g. brokerage commission, accounting and audit fees) as a proportion of total fund assets would then be reduced and in turn lowers the fund’s Total Expense Ratio (TER).

Reduction in Tax and Regulatory Barriers

In markets like Australia and Korea, it is currently more difficult or costly to invest directly in an offshore fund than it is to invest in a local fund due to tax and other regulations. The cost of investing in an offshore ARFP fund compared to a locally domiciled fund should be more equitable for the ARFP to succeed. The recent ARFP annual report noted that Australia will convene a meeting of a tax reference working group to seek to achieve tax neutrality for all the ARFP member countries (i.e. a similar tax treatment should apply for offshore ARFP funds and local funds within the same jurisdiction).

Challenges

Product Strategy

The ability to distribute the same fund into multiple jurisdictions in APAC under the ARFP scheme sounds attractive but does not necessarily equate to additional sales. The highly fragmented nature of Asia’s markets also means no single product strategy is guaranteed to be successful across all other ARFP member countries. Just as food, language and culture can differ across countries within APAC so can local investor appetite.

Distribution

Establishing an effective distribution network will be vital for an ARFP participating fund manager to be successful in a new country. This will likely involve establishing a local distributor partnership to satisfy local distribution licensing rules. However, with Asia’s distribution channels dominated by banks, sourcing for a suitable partner might be difficult given that many banks already have their own fund management businesses or affiliations with other asset management companies.

Branding

A global fund manager might find it difficult to build their brand across multiple jurisdictions within the APAC region. Even for established regional fund managers, there might be very little brand recognition outside of their home country. A successful branding / marketing campaign in Australia may not necessarily be as effective as it would be for a market like Korea.

“The ARFP has the potential to be a breakthrough for the funds management industry in the region.”

Rohan Singh
Managing Director
Head of APAC Asset Servicing
BNY Mellon
The Asia Regional Funds Passport: Benefits vs Challenges for Global Investment Managers

Benefits
- Greater Access to Asian Markets
- Cost Savings
- Reduction in tax and regulatory barriers

Challenges
- Product Strategy
- Distribution
- Branding

Conclusion

The ARFP is an important step in the further development of the region's fund management industry. If it is successful in achieving the member government's objectives of developing the local asset management industries and recycling savings within the region, this may lead to jobs growth and greater economic prosperity.

Whether or not the ARFP will become an effective distribution tool for global fund managers as the UCITS regime is still up for debate. Unlike UCITS, which is a European Union initiative, the APAC region does not have the benefits of having a single market, currency or regulator. APAC is a mix of diverse regulators and markets that can only be compared as individual markets rather than as a single region.

However, given UCITS has taken over 30 years to get to where it is today, the progress that has been made with the ARFP in a relatively short space of time has been impressive. With the continued efforts of the member governments, the future for the ARFP seems promising, and for fund managers looking to tap into the emerging wealth within the region, this may be an opportune time.

APPENDIX


Overview. On 25 July 2017, the Joint Committee (JC) of the Asia Region Funds Passport (ARFP) initiative published the first annual report on the ARFP covering the period July 2016-June 2017; and a public consultation on guidance describing the host economy laws and regulations that will apply to passported funds.

Annual Report. The Annual Report provided updates on each participating economy's progress in implementing the ARFP Memorandum of Co-operation (MoC), covering the 2016-2017 financial year, relating to Japan, Australia, New Zealand, South Korea and Thailand (“the Development of pre-Implementation in Member Economies”). The Annual Report also contains, among other things,
- An update on progress of tax issues
- A summary of discussions on back-office fund processing
- Summaries of engagement with potential participant economies and industry
- A sample application form setting out minimum requirements for a fund's entry into a ARFP economy, subject to any additional regulatory requirements.

Consultation on the ARFP Guidance. The JC of the ARFP published a consultation on draft guidance which is intended to help collective investment scheme (CIS) operators make an initial assessment of host state requirements for ARFP funds. The guidance relates to Japan, Australia, Korea, New Zealand and Thailand. For each country the draft guidance covers the following matters:
- Disclosure – covering requirements including point of sale (e.g. prospectus) and ongoing disclosure (e.g. periodic reports);
- Capital controls – covering capital controls (where applicable) and notifications for offshore investment;
- Taxation – covering investor (resident and non-resident), fund and fund manager taxation;
- Distribution – covering requirements including distributor qualifications, registration and notification obligations, marketing and products rules and regulatory intervention powers;
- Local agents – covering host state agent/representative requirements;
- Access to financial markets to sell exchange traded funds – covering the issuance, sale, marketing and listing of ETFs in host states; and
- Privacy and anti-money laundering (AML) legislation

Comments on the consultation were due 19 September 2017. See http://fundspassport.apec.org/2017/07/25/release-annual-report-guidance/
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