



APFF

Asia-Pacific Financial Forum



Key Messages

Asia Region Funds Passport

2015

Asia-Pacific Financial Forum

KEY MESSAGES: ASIA REGION FUNDS PASSPORT

Background

The Asia Region Funds Passport (ARFP) is a program which will provide a multilaterally agreed framework to facilitate the cross border marketing of managed funds across participating economies in the Asia region. As at 31 August 2015, the ARFP Working Group comprised Australia, Korea, New Zealand, the Philippines, Singapore and Thailand, with other economies also participating in discussions on ARFP. The economies that decide to become member economies of ARFP will work to finalise the arrangements in 2015 with a view to the passport commencing in 2016.

Role of the Asia-Pacific Financial Forum in the Development of the ARFP

The APFF Sub-Stream on the ARFP was established to support the successful launch of the ARFP. The channels for public-private collaboration created under the APFF has allowed the ARFP sub-stream to facilitate a discussion on the early enlargement of ARFP to include a critical mass of participating jurisdictions, as well as the interoperability of ARFP with other regional mutual recognition frameworks.

Supporting the Successful Launch of the Asia Region Funds Passport

In 2015, the APFF convened several discussions with representatives from the international asset management and financial industry, as well as experts from the legal and consulting professions and public international organizations, to provide industry feedback to regulators and officials as they worked to advance the ARFP. Responding to the draft ARFP rules and operational arrangements circulated by APEC in the early part of the year, APFF submitted its comments reflecting the views of the industry. Key ideas in the submission included the following:

Enlargement of the ARFP

The flexibility of the ARFP to enlarge is critical to its impact and success. ARFP should work towards the inclusion of other economies, such as Hong Kong, Japan and Chinese Taipei. The participation of as many economies as possible in the ARFP, particularly at the outset, and the opportunity for future enlargement would incentivize active participation by financial service providers in the ARFP, increasing the ARFP's coverage and thereby increasing intra-regional capital market integration, and allowing its benefits to be more widely enjoyed. ARFP's enlargement will increase investors' investment options and reduce cross-border investment costs through economies of scale.

Reciprocity

Member economies should work towards according "equivalent priority" to promoting ARFP Funds so that they are treated on a basis that is comparable to domestic funds. This spirit of reciprocity will allow the ARFP to facilitate greater financial integration.

Inter-operability with Other Regional Frameworks

It is important that the ARFP is flexible enough to interoperate with other regional investment schemes, such as the Hong Kong-China mutual recognition regime and the ASEAN Collective Investment Scheme (CIS) Framework to facilitate the future convergence of the various initiatives and structures. Interoperability with other regional schemes would, as with the introduction of more economies into the ARFP, create greater economies of scale, reduce market fragmentation and improve financial market integration, while ensuring that alternatives continue to be available to retail investors.

Taxation

There are currently no rules in relation to taxation at a fund level and the taxation of distributions, despite an acknowledgement of the seriousness of the implications that domestic tax issues may have on the ARFP scheme. Different tax regimes in participating jurisdictions can significantly impact a fund's performance and returns earned by retail investors, creating incentives or disincentives for participation.

Dispute Resolution

In the European funds passport arrangement (the UCITS regime), mechanisms exist to resolve disputes over issues such as the interpretation of UCITS directives and disputes arising between home and host regulators or regulators and investors. There is a strong case for the creation of a resolution mechanism to help address uncertainties, disputes or issues of misinterpretation that may arise in the course of the operation of the ARFP.

Standardization of Fees and Performance Figures

It is suggested that the Working Group establish rules on the method of calculation of and disclosure of performance figures and fees in the prospectus of ARFP Funds in order to ensure investors are able to conduct a fair comparison of the available ARFP Funds.

International Recognition of ARFP Funds

It is suggested that the Working Group begin engaging with non-member regulators with a view to facilitating the cross-border distribution of ARFP Funds beyond the member economies. ARFP Funds should eventually be permitted to be offered into non-member economies the same way UCITS funds may be distributed in non-EU jurisdictions.

Prepared by the Asia Region Funds Passport Sub-Stream of the Asia-Pacific Financial Forum

September 2015

For further information please contact:

Dr. Julius Caesar Parreñas, Coordinator, Asia-Pacific Financial Forum (parrenas-2p7d@jp.nomura.com)