



10 April 2015

Primary Markets Conduct Division
Market Conduct Department
Monetary Authority of Singapore
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Singapore 079117

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Dear Sir / Madam

**Asia Region Funds Passport
Consultation on the detailed rules and operational arrangements**

Thank you for the opportunity to comment on the detailed rules and operational arrangements for an Asia Region Funds Passport (ARFP).

APREA is a non-profit body that represents the real estate investment industry in the Asia-Pacific. APREA has chapters in eight regions – China, Japan, India, Australia, Hong Kong, Singapore, the Philippines and Malaysia.

We support the goals of the ARFP, which are to:

- increase the capacity to generate retirement wealth in Asia to a level that matches the needs of a growing regional population;
- encourage a larger regionally based funds management marketplace that better understands and can better service the needs of Asian communities;
- fast track the convergence of benefits (at the highest level) arising from a seamless regional funds management marketplace to the advantage of Asian countries developing at vastly different rates of economic growth;
- more effectively mobilise capital that can underpin and drive economic development in Asia;
- encourage economies of scale and market deepening that will mitigate risks associated with potentially large and volatile capital flows across the region;
- better optimise asset allocation;
- diversify risk;
- reduce the cost of doing business and minimise dead weight externalities associated with multiple regulatory regimes; and,
- re-orient management time and resources to entrepreneurial activities.



APREA believes that frictionless trade in financial and funds management services will:

- enhance the flow of capital to Asia;
- encourage higher returns at lower levels of risk (in line with conclusions stated in APEC's commissioned research)
- direct capital to:
 - boost economic growth, in particular lifting productivity in fast-urbanising economies and increasing labour market participation by better enabling critical infrastructure investment; and,
 - generate social and environmental dividends, which includes improving basic amenities;
- increase the number of financial services-related jobs; and,
- encourage supporting and complementary depth in Asia's financial superstructure, such as efficient bonds markets.

However, to achieve these ambitious goals, APREA submits that the strategic horizons of the funds passport regime should embrace **all major asset classes**, including property and other real investment assets (such as infrastructure).

Property is a well-established and tested asset class that plays a critical role in delivering benefits to investors, including:

1. investment performance;
2. transparency;
3. reliable income flows and higher yields;
4. liquidity;
5. inflation resilience; and,
6. strong diversification.

APREA recognises that the funds passport country partners intend to "tune the pace" of the regime's development.

Nevertheless, APREA contends that the current framework-building program should anticipate the future inclusion of property/real assets into the regime now, rather than be forced to retrofit the regime at a future point.

This is why we broadly support the technical recommendations offered in submissions made by the Property Council of Australia and the CFA Societies.

As noted in their submissions, the draft rules may add to regulatory complexity and are counter to broader public policy goals.

APREA offers further technical recommendations below.

Technical Recommendations

The ARFP does not currently allow investment in real property. Property is not a permitted asset under subsection 19(1) of Annex 3.

Other restrictions which impede investment in real property include:

- the 5% single entity limit under section 30 of Annex 3, since real property is a 'lumpy' asset;
- the onerous restrictions on borrowing in section 44 of Annex 3, since the raw returns of real property are typically low and leveraged (noting that this does not increase the credit risk profile of the fund beyond that of listed securities which are themselves typically geared); and
- the 15 day cap on redemption period in Division 7.1 of Annex 3, since real property is 'lumpy' and typically takes more than 15 days to transact.

We urge the Working Group to calibrate these sections such that they can be relaxed in the future to broaden the scope of the ARFP to encompass property and other real investment assets.

An alternative to this is the establishment of subsequent frameworks that are similar to the ARFP but are more targeted in scope.

For example, in Europe, the Alternative Investment Fund Managers (AIFM) scheme covers managers of alternative investment schemes that are addressed to professional investors.

The European Commission has also proposed the European Long-Term Investment Funds (ELTIF) regime, a framework covering funds that focus on investing in various types of alternative asset classes such as infrastructure, small and medium sized enterprises and real assets.

APREA further contends that the proposed qualifying threshold of USD 500 million is too high. We understand the Working Group's view of size of assets under management (AUM) as a proxy measure of experience and capacity to manage sizeable funds. Nonetheless, we think the qualifying threshold of US\$ 500 million unduly penalizes smaller but well run fund operators.

We propose a lower AUM threshold of USD 200 million. This would allow fund operators with well run operations to access the Funds Passport scheme.

Beyond the above, APREA broadly supports the detailed recommendations offered in the submissions made by the Property Council of Australia and the CFA Societies.

Finally, APREA encourages APEC to encourage the extension of the ARFP to more country partners, including China and Hong Kong, India, Japan, Malaysia and the Philippines (for starters).

A broader set of participating markets will enable the ARFP to achieve the goals stated above.



In addition, APREA encourages APEC to actively examine opportunities to link ARFP with European UCITS – Undertakings for Collective Investment in Transferable Securities, the emerging ASEAN Collective Investment Scheme (CIS) and the Hong China-Mutual Recognition Agreement (MRA).

Please do not hesitate to contact me should you require further information.

Yours faithfully

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