10 April 2015

The following table provides a summary of J.P. Morgan Asset Management's comments on the public consultation paper, "Arrangements for an Asia Region Funds Passport: Feedback Statement and Consultation on Draft Rules".

Reference	**Comments**
General Comment	We believe that master-feeder funds that invest in mutual funds from outside of the Member Countries should be considered as eligible for a passport fund. The economic benefit to the Member Country, where the fund is domiciled outside of the Member Countries, does not exist or is, at best, negligible when comparing a direct investing fund with a master-feeder fund. In both scenarios, an onshore fund would need to be established, a proportion of the management fee would be paid to the fund manager which, based on upon the current draft of the regulations, this could be outside of the member countries and a proportion of the management fee would be paid to the sales and distribution team who are servicing the clients from which the assets are sourced. By having this restricted it is ultimately detrimental to the investors in the fund given they will not be able to benefit from the economies of scale that they would enjoy being a unit holder of a larger fund via the master-feeder structure. As a fiduciary, the asset management industry should always have the investor's best interests at heart. Finally given investment in offshore funds domiciled outside of the member countries, either directly on via master-feeder structures, is already permitted in almost all the member countries, allowing master feeder funds within the region to invest in mutual funds outside the member countries, will put the initiative on a level playing field and hence will make it commercially more attractive to investment managers.
Section 2 of Annex 1>Qualified Distributor	We would like to request for the definition and scope of "qualified distributors". Since this could vary by jurisdiction it may not be a level playing field across the regions.
Section 6 of Annex 3> 6.2 Permitted investments> 19 Permitted assets and arrangements (2) (a) to (e)	Fund documentation in certain jurisdictions defines the investable assets more broadly than what is currently being proposed under this section. If the investable assets are limited to those under (a) to (e) in 19 (2), it may be necessary for certain/all jurisdictions to amend the fund documents substantially, which may therefore may make it technically difficult for them to participate in the passport initiative. As an example, Japan, which is considered a potential signatory, may be substantially impacted here. We would like to suggest that a broader scope be adopted and to provide a relaxation of non-permitted assets.

Section 6 of Annex 3> 6.2 Permitted investments> 20 Jurisdiction requirement for assets	The IOSCO jurisdiction restriction may have an adverse impact on the ability to passport certain emerging market equity funds. Moreover, it would be to the detriment of investors if funds' investment universes are restricted as certain prohibited underlying markets may be key portfolio components and would also be more concentrated. If the intention is to limit investment in to certain countries to depositary receipts, we would like to clarify that ADRs and GDRs can be held under 23 (1) (d) , due to the limiting effect of 19 (2) (c).
Section 6 of Annex 3> 6.2 Permitted investments> 21 (1) Requirements for deposits	The requirement to restrict deposit taking institution that is regulated under the guidelines of the Basel Committee on Banking Supervision would be more restrictive than the general standard followed in the region. Since deposit includes any current account, we believe that in using a global custodian there is no look through to the countries in which that custodian holds cash on behalf of its clients.
Section 6 of Annex 3> 6.2 Permitted investments> 21 (2) (a) & (b) Requirements for deposits	This requirement is more restrictive than the general standard followed in the region.
Section 6 of Annex 3> 6.2 Permitted investments> 23 (2) Requirements for transferable securities	In respect of a passport fund prohibited from acquiring a transferable security if liability could arise from holding it under the terms of the security (party paid), will this prevent participation in IPOs with partial payment and subsequent calls? We would like to suggest clarification and permitting participation in IPOs.
Section 6 of Annex 3> 6.2 Permitted investments> 25 (1) (a) (iv) Requirements for derivatives	The criteria for an eligible index should take into account the accepted criteria in the region and global standards. A financial index can be an index of commodities or precious metals provided the diversification criteria are met. We would like to suggest that a further review of the eligibility of indices be performed, taking into consideration global accepted standards such as the eligibility criteria in ESMA 2012 832 XIII Financial Indices.
Section 6 of Annex 3> 6.2 Permitted investments> 25 (1) (a) (iv) Requirements for derivatives.	Many jurisdictions are using the VaR methodology for monitoring the portfolio derivative risk instead of having multiple individual restrictions. We believe that this approach is holistic and reasonable in terms of managing actual risk instead of suggested detailed limits on which derivative can be used and how they can be used. For jurisdiction that are transitioning to such enhance monitoring, it may make it technically difficult for us to use Passport, such as Japan.
Section 6 of Annex 3> 6.2 Permitted investments> 25 (2) and (3) Requirements for derivatives	We would like to suggest that synthetic shorting should not be completely restricted and are of the view that synthetic short selling should be permitted. It would be necessary to modify the provisions for issuer restrictions to handle short exposures to issuers and to extend the rules on counterparties to permit the use of prime brokerage. Regarding the introduction of short selling, the global exposure limit by the

	commitment method is inadequate as it cannot take into account risk introduced by correlations between securities or between a mixture of securities and derivatives. For instance large bets in industrial sectors, countries or currencies can increase investment risk in a portfolio without using derivatives which are measured by global exposure. In permitting short exposures in equity portfolios we would expect the setting of internal limits for gross, gross long, net long and net short and gross short exposure, complemented by relative or absolute value at risk and a range of stress tests. In fixed income, the derivatives used have such a broad range of sensitivities to a given market movement that even for long only accounts we have elected to replace global exposure with VaR.
Section 6 of Annex 3> 6.2 Permitted investments> Requirements for derivatives > 25 (3) (b) (v)	The complete restriction of shorts will exclude funds such as 130/30 equity funds, market neutral long/short equity funds, merger arbitrage funds, absolute return funds, and also some arbitrage strategies employed in fixed income funds which are subject to efficient portfolio management restrictions. This, combined with the lack of provision for value at risk, means that fund investing in the low risk fixed income asset class may find it difficult to qualify for pass porting, whereas higher risk long only equity funds will readily qualify. We would like to suggest a review of the provision under derivatives to provide a risk based restriction approach e.g. use of VaR analysis.
Section 6 of Annex 3> 6.2 Permitted investments> Requirements for derivatives > 27 (2)(ii)(A)	Limiting investment to IOSCO appears to be more restrictive than the general investment standards in the region.
Section 6 of Annex 3> 6.2 Permitted investments> (3)(a)(ii); & (b) (i)	We believe that limiting to OECD countries and the Operator's review of risk of default over the subsequent 5 year period is an additional restriction over the generally followed investment guidelines in the region and would limit the funds along with the need for requiring additional monitoring mechanisms.
Section 6 of Annex 3> 6.2 Permitted investments> 28 (2) (a) (i)	The requirements around the Basel Committee guidelines and IOSCO are more restrictive than the generally followed restrictions in the region.
Section 6 of Annex 3> 6.2 Permitted investments> 28 (2) (b) (i)	The requirements on Collateral appear to be restrictive. Certain jurisdictions permit collateral to be pledged and also title transfers.
Section 6 of Annex 3> 6.2 Permitted investments> 28 (2) (b) (ii) Collateral	No party will be under an obligation to deliver an asset that is not a permitted asset under subsection 19(2). This would appear to limit derivatives to cash settled instruments or which if not cash settled have underlying instruments limited to 19 (2). Use of collateral rations (105%) would restrict the counterparties. Such restriction is not usual in major jurisdictions.

Section 6 of Annex 3> Division 6.3, Restrictions on portfolio allocation> 30 (1) Single entity limit	We are of the view that the single entity limit of 5% drafter under section 30 of Annex 3 is too restrictive. We recommend Option 2 described under point 50 of the feedback paper, which would be subject to/takes account of the investment object and risk appetite of each concerned fund.
Section 6 of Annex 3> Division 6.3, Restrictions on portfolio allocation> 30 (4) 35% Governments	We regard the limit of 35% for government securities as being low. As reference, certain jurisdictions permit 100% single government issuer (at least 6 issues; 30% max per issue) if disclosed in the prospectus.
Section 6 of Annex 3> Division 6.3, Restrictions on portfolio allocation> 34 (3) CIS	We would like to suggest permitting up to 20% investment in each UCITS to be consistent with permissible investments in certain jurisdictions in the region.
Section 6 of Annex 3> Division 6.3, Restrictions on portfolio allocation> 34 (4) CIS	We would like to suggest permitting consolidated investment of 30% in non-UCITS up to 100% in UCITS schemes to be consistent with permissible investments in certain jurisdictions in the region.
Section 6 of Annex 3> Division 6.4 Limit on Exposures > 40(1)(c)	We would like to suggest a look-through into the index, asset weightings need to be considered to calculate exactly what is being hedged.
Section 6 of Annex 3> Division 6.4 Limit on Exposures > 44	We would like to suggest to also permit temporary borrowing to manage settlement mismatches.
Section 6 of Annex 3> Division 6.4 Limit on Exposures > 44(1)(e)	The up to 31 days overdraft period is restrictive. Many jurisdictions permit a 3 month overdraft period.
Section 7 Annex 3: The financial resources of the Operator	We would like to suggest that the financial resources test be applied at the Operator's regional group level given that this is a regional commercial initiative.
Section 9 of Annex 3> Track record of Operator > Track Record – experience of the Operator	We would like to suggest that the Operator's regional group level experience given that this is a regional commercial initiative.

Section 11 of Annex 3 > Delegation of functions by Operator > Limitation on delegation of investment management function	We would like to ensure that Hong Kong and Japan are also included as jurisdictions where it is permitted to delegate discretionary investment decisions given their significance as global international banking and finance centres.

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