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The Treasury
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Consultation Paper: Arrangements for an Asia Region Funds Passport

Thank you for the opportunity to provide a submission in relation to the above consultation paper. At EY we see this as a very important development and one that, at a high level, we fully support. There are however inevitably challenges with such a scheme that is planned to be operational across borders with varying regulatory frameworks already in place and a significant variation in the maturity of the investment management industry. Many of those challenges have been drawn out in the consultation paper, but we feel there are other commercial issues which warrant further consideration such as the availability of tax incentives and the participating countries' regulatory environment.

Our submission will cover some high level principles and then address specific questions that were raised in the consultation paper. Accordingly, we have not provided detailed responses to each question contained in the consultation paper.

Before providing our firm's formal response, I would first like to take the opportunity to provide a high level summary of EY and in particular our asset management practice.

EY is a leading global professional services firm offering assurance, tax, transaction and advisory services. We have approximately 167,000 people based in 728 offices in 150 countries, organized into 29 Regions and 4 Areas. We feel the insights and quality of services we deliver help build trust and confidence in the capital markets and in economies the world over.

Our global wealth and asset management practice encompasses key financial centres in the Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. Globally, we have more than 15,000 professionals, including over 1,100 partners of member firms focused on serving the wealth and asset management industry. As one of the leading professional services organizations for the investment management industry, EY provides innovative services to global and domestic wealth and asset management clients.

Within the Asia Pac region we have approximately 2,000 staff and partners focused on wealth and asset management services. Our Asia Pac region includes each of the proposed "passport" countries of Australia, Korea, New Zealand, The Philippines, Singapore and Thailand. We therefore have particular interest in this important development and believe, as an independent party that we are uniquely placed to respond to the consultation paper.

In relation to Australia we service a wide range of asset management clients. Our client base includes a wide range of asset managers and funds, covering a wide spectrum of the value chain, including:

- Domestic and internationally owned businesses
- Funds which invest locally and internationally
- Traditional regulated funds and alternate funds
- Large and small managers and funds
- Hedge funds
- Standalone asset managers and those businesses that are part of broader wealth management organisations and other corporate structures
- Organisations servicing the asset management sector such as transfer agents, brokers and custodians.

Context

As recently as 2012, the possibility of an Asian fund passport – a scheme that allows investment funds to be sold across borders within Asia – was viewed with scepticism by many asset managers. While many in the industry could see the potential benefits of such a scheme, few expected to see one implemented in the foreseeable future. Move forward to 2014, and asset managers find themselves contemplating not one but three Asian cross-border fund initiatives. Those initiatives being the ASEAN passport, the China/Hong Kong mutual recognition proposal and this Asia Pac passport initiative. The resulting “buzz of anticipation” is prompting local and global firms alike to review their growth strategies for the region. While these developments are being viewed positively, it is currently not clear amongst asset managers which passporting regime they will operate under. The three initiatives coming out at broadly the same time also puts considerable pressure on the architects of the systems to seek “first mover advantage”, while ensuring that in the haste to market there are adequate protections built into the system to ensure it is transparent, efficient and effective.

In developing any cross border Asian/Asia Pac scheme, it is salient to remember that the Undertakings for Collective Investment in Transferable Securities (UCITS) framework has taken 25 years to reach its current position, and that in many respects Asia is more complex and diverse than Europe.

The ASEAN framework aims to allow cross-border distribution of Collective Investment Schemes (CIS) between Singapore, Malaysia and Thailand as part of ASEAN’s Capital Markets Integration Plan. Although the Memorandum of Understanding between the three countries was only signed in late 2013, a set of common standards (Standards of Qualifying CIS) for the framework that will govern the cross border offering of ASEAN CISs has already been developed. Some ground rules for eligible funds – such as a five year track record and assets under management of at least US\$500m – have already been published. The fund managers using this framework will have to abide by these standards to ensure that the retail funds are managed based on industry best practices. The current

set of standards is not significantly different from the current framework applicable to fund managers operating in Singapore and as such, Singapore would seem to be an appropriate starting point to provide the blueprint for regulation and product design. Singapore's dual role offers the clear potential to learn from experience of the ASEAN framework, but it also means that the ASEAN initiative may get the first mover advantage over the Asia Pac passport.

In contrast, the proposal for mutual recognition of funds between China and Hong Kong should be comparatively simple to implement, even if the structure and timing of the scheme remain opaque. The two markets already have a close political and administrative relationship, and statements from the Securities & Futures Commission suggest the scheme may be launched during 2014. This timeframe, and the potential for access to China's domestic fund market, mean that mutual recognition is prompting a rapid response from the industry. A number of international firms are taking steps to establish or strengthen their onshore fund offering in Hong Kong. If the scheme does begin this year – even if on a limited basis – it is likely to result in significant capital flows in and out of mainland China.

High Level Observations

The operation of a successful, efficient, and well governed funds passport arrangement is highly desirable and we commend the initiative of the APEC Finance Ministers in that regard. Overall we support the initiative and many of the recommendations made in the paper are consistent with our understanding of what makes a successful cross border product. There are however areas where we believe the proposed approach could be amended, or where particular attributes do not appear to have been adequately addressed. The table below summarises our assessment of the current proposal as to whether, at a high level, the consultation paper adequately addresses key attributes of a successful passport arrangement:

<i>Attribute</i>	<i>Adequately considered</i>	<i>Further considerations</i>
Level playing field for all participants	Yes	Understandably some of the country participants are likely to be at varying levels of sophistication, but this initiative should result in a more level playing field
Efficient and transparent licencing	Somewhat	While understandable, it is disappointing that initially there has to be dual registration rather than simple harmonisation and mutual recognition
Robust governance and oversight of all passport operators	Yes	Below we have provided some suggestions to further enhance proposed governance arrangements
A range of investment options that expand opportunities for local consumers/investors	Yes	While the proposed investment options are restricted, we believe, at least initially, that this is not a negative. It is better to get a clearly understood, well-functioning system established and operational rather than overly complicating the initial passport model
Efficient and clearly understood taxation	No	Tax is a country by country specific matter so it is understandable that such a paper does not address this

arrangements		vexed issue, however there must be inter-governmental clarity over the tax treatments of the proposed passport products to enable effective operational functionality
Well defined distribution mechanisms and codes of conduct	Yes	At a high level the requirements are outlined and we assume in the final rules there will be further clarity
Clear compensation and dispute mechanisms	Somewhat	Further work is warranted to clarify the compensation and dispute mechanisms open to investors/consumers

The consultation paper’s questions 3.29 to 3.34 provide a good basis from which to draw out some higher level comments before addressing matters of particular relevance to us. Therefore, we have included those questions, along with our views, within this section rather than the “specific questions” category of our submission below.

Q3.29 Do you agree with the proposed approach in terms of whether home, host or passport rules apply to this area of CIS regulation?

To realize all of the benefits of the passport initiative it is important that there is one set of clearly defined rules that a product is issued under. Therefore, we strongly suggest that it would be desirable for all the participating countries to agree to one set of robust rules, rather than maintaining individual country requirements and then having an overlay of passport rules. Only by doing so can investors participate with confidence and operators have certainty as to their obligations, regardless of home domicile.

In regard to the operation of the fund, the current proposals recommend that the CIS’s home economy, laws and regulations will apply as a baseline. Host economy rules will not apply. For example, as passport funds must comply with their home economy, laws and regulations in relation to duties of operators, risk management etc, there will be a need to ensure consistency in the standards set in each home economy.

Q3.30 Do you think that the proposed approach would enable the passport to achieve its key objective of providing a high degree of investor protection? If not, in what way can the approach be enhanced?

As stated above, we feel there is more work to be done in relation to investor protection. It is important that there is consistency in such matters so as to ensure regulatory or protection arbitrage, depending on the country in which the product is issued or sold, is not inadvertently fostered.

From a data privacy perspective, given that marketing will occur across borders and in different countries, there is a higher chance of transmittal of investors’ information between jurisdictions. As different member countries may have varying standards or levels of data privacy protection, passporting rules may have to be more directive so as to better align the requirements of local jurisdictions with ARPF guidelines.

Q3.31 Where the passport rules apply, do you agree with the proposed content of the passport rules? If you do not agree, please explain why not. In your view, are there better ways to achieve the underlying purpose of the proposed rules?

Overall, we believe the proposed passport rules are reasonable. In particular, we support the need for reasonably capitalised operators, the use of independent custodians, regular pricing of securities and the obligation to use assurance professionals. While under the “specific questions” headings below, we outline areas where we believe further clarity would be beneficial, overall we are very supportive of the initiative.

We do note that in relation to custodians, in the U.S., there is a similar allowance for the use of related party custodians. Where a related party is utilised, a report of the internal controls relating to the custody of those assets from an independent public accountant (like an ISAE 3402 report) is required. We believe such an approach is sensible and desirable and suggest this should also be considered for the Asia Pac passport.

Q3.32 What impact would the proposed approach have on competitiveness and investor confidence?

At the macro level, the proposal should increase competitiveness and investor confidence. It will be a positive development to have a true Asia Pac passport product, rather than relying on product developed in other markets such as the European UCITS offering. If appropriately adopted, the passport should open up Asia’s capital markets, allow a freer flow of capital within the region and improve the integration of member economies. By breaking down national barriers, this should increase competition and broaden investor choice, which in turn should have the dual effect of reducing cost and making it easier for investors to diversify.

At a national level, participating countries will expect that greater cross border activity will help raise standards of commercial and regulatory expertise across the region. Less mature, developing investment markets should see the greatest benefits but offshore investment centres such as Australia and Singapore should also see an improvement in the breadth and depth of their onshore fund industries. These benefits will be further enhanced by these offshore centres improving their knowledge and understanding of participating, but less mature investment markets.

To achieve these goals, the schemes will need to emulate the success of UCITS, the European fund framework that has achieved strong take up in a number of Asian markets. At its core, that means reassuring investors across Asia Pac that they can invest abroad while enjoying the same standards of performance and protection they would expect in their home market.

From an Australian perspective given our large superannuation asset pool and sophisticated funds management industry there should be significant benefits. Australia has the skills, infrastructure and regulatory frameworks to be a very active participant in this initiative. Due to the large pool of assets and diverse asset classes that are currently managed in Australia, there should be high quality

product that Asian investors would benefit from accessing. Equally, the opportunity for Australian investors to seamlessly invest in ex-Australia product can only be positive from a diversification and competition perspective. It should result in more assets under management locally, which would result in more employment opportunities for a skilled Australian work place.

The Australian tax framework is, however, challenging in its complexity and reach. Clarity will be required as to the tax consequences of Australians investing offshore and equally Asian residents investing into Australia. We often hear foreigners expressing concerned over the lack of certainty of tax outcomes in an Australian context and such concerns must be addressed for Australia to fully benefit from this important initiative.

Q3.33 For prospective passport fund operators or current and prospective fund managers, what impact would the proposed approach have on your business? If the proposed approach would result in an increase or reduction in compliance or other costs, please quantify.

As a service provider to the industry, we can only comment at a high level in relation to the impact on fund managers, which from our discussions with industry participants to date, has been broadly positive. However, there are concerns over the potential for confusion (amongst both operators and investors) by having the three initiatives of ASEAN, China/HK Mutual recognition and the Asia Pac passport considered concurrently.

At a macro level, all three proposals have similar goals, as they aim to open up Asia's capital markets, allow freer flow of capital within the region and to improve the integration of member economies. However, all three proposals need to combine a sense of purpose with effective planning and consultation to achieve a common set of qualifying standards. The diversity of the countries within the Asia region in terms of language, culture and market maturity also means that achieving such a common set of standards will be challenging. However if these differences can be overcome, it will bring significant benefits to investors and asset managers within our region.

From a "compliance cost" perspective, the need to have separate registration in host countries will likely result in increased costs. In our view, this is undesirable and may be detrimental to the overall success of the initiative. Full mutual recognition would overcome such concerns and reduce cost. Other expenses associated with cross border matters, such as translation into local languages, are probably an inevitable cost of doing business and provided participating countries are sensible in the cost/benefit analysis of these requirements, we do not see them being insurmountable problems.

While there is likely to be an increase in compliance costs, harmonisation of standards will provide cost reductions in the form of shortened regulatory approval time, less cumbersome registration process and easier access across the markets in each jurisdiction. Weighing the pros and cons, we believe the potential increase in compliance costs will not be significant to deter asset managers from pursuing the benefits likely to be associated with this initiative .

Q3.34 Do you require more information about the proposed approach? If so, what?

As previously stated, it would be highly beneficial for participating countries to provide clarity over the tax treatment of such products being sold to citizens in countries outside of the host jurisdiction.

Specific Questions

As noted in our opening paragraphs, we have responded to specific questions where we feel we can provide insight and value. Therefore, we have focussed on matters such as audit and governance. We have replicated the questions per the consultation paper, followed with our response.

Q3.7 Is the requirement for an audit of certain home economy laws and regulations related to the passport fund operational requirements sufficient to ensure that passport funds are operated in accordance with the prescribed standards?

The importance of a “level playing field” in relation to the audit of the passports operational requirements, cannot be overstated. By ensuring consistency, confidence in the assurance provided by independent external professionals and / or organisations will ensue. We recommend that International Auditing Standards regarding assurance engagements are applied to all prescribed passport requirements, as these are universally recognised and understood.

From an Australian perspective when completing compliance plan audits we apply the Australian Standard on Assurance Engagements. That framework is broadly in line with the international standard and therefore we would be supportive of adopting the international standard for passport compliance auditing. In addition, the Australian Auditing and Assurance Standards Board (AASB) issued Guidance Statement 013 “Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes” to aid the audit profession. This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with Auditing Standards (which in this country at least, have the force of Law). The proposed Guidance Statement does not prescribe or create new mandatory Requirements, however in our view an equivalent document to that of the AASB’s may be useful for the purpose of regulatory audit of passport compliance.

While International Auditing Standards do not provide specific audit guidance for this particular compliance audit, compliance procedures are often performed in accordance with the requirements of the specific regulatory regime. Perhaps the Ministers could consider drafting a set of terms of reference for the assurance practitioner to follow in conducting the compliance audit so that such an audit is conducted in an efficient and effective manner.

Q3.8 Are there any practical problems associated with the compliance audit rule? In particular are there any particular aspects that would be burdensome or inappropriate to audit?

We do not believe that there are any particular concerns over the proposed scope of audit. In many regional jurisdictions we already perform audits or assurance reviews over the operation of certain compliance matters. In saying that, it is globally recognised that an “expectations” gap will often exist in relation to the assurance an auditor is providing and the belief of certain users of such

reports. It is therefore critical that clear articulation over the scope and limitations of any assurance report exists.

We would be happy to work with the Ministers in developing the necessary reporting framework to support of this initiative.

Q3.9 Would it be clearer or more practical to instead require an audit of whether the passport fund operational requirements are being met?

As stated above, we do not believe there should be any uncertainty, provided there is clarity in the assurance providers report over the scope, limitations, duties and findings.

Q3.10 Is this restriction on counting the experience of an operator or related party under different control sufficient to ensure that the operator has the capability to act as a passport fund operator? Would the restriction give rise to any practical problems? If the experience of the operator is permitted to be counted despite a change in control because it meets the requirements about continuity of staffing and decision making processes, should there be additional documentation requirements? If so please explain.

The long term success of any passport proposition will, to a large degree, be dependent on the skills and experience of the operators. It is therefore vitally important that there is a “form of experience”, along with a “fit and proper” test in relation to key executives and those in charge of governance. While there may be some practical challenges with some components of what has been suggested, overall we are supportive and believe such challenges should be able to be overcome in a sensible pragmatic fashion.

Q3.11 Should operators be allowed to count experience operating other types of retail investment schemes (for example, pension funds) as the requirement is currently drafted? Are there other types of experience which should be allowed to be counted?

The investment schemes proposed under the arrangement appear quite consistent with the style of investments that pension fund operators and operators of other retail funds are likely to have participated in. Therefore, we believe it would be appropriate to consider a wider range of skills and experience in relation to those operators who should be able to offer such products into the retail market. Experience in managing investment monies would appear to be very complementary to the skills needed for the products envisaged under the proposed passport arrangements.

Potentially, consideration could be given to providing limited or restricted licencing of operators and/or fund managers into certain classes of investments. This may allow more people to be providing services to the initiative but in a tightly and appropriately controlled manner. Examples of such restrictions may be limiting the use of derivatives. Such restrictions are also provided for in the Code on Collective Investment Schemes (CCIS) in Singapore.

Q3.15 The European Securities and Markets Authority (ESMA) in its technical advice to the European Commission on possible implementing measures of the Alternative Investment Fund Managers Directive recommended allowing a degree of substitutability between professional indemnity insurance and capital to cover professional liability risks. Should a passport fund operator be able to substitute for capital (in whole or in part) the amount of cover provided by holding professional indemnity insurance which meets specified requirements given that a purpose of the requirement for capital for passport fund operators is to address professional liability risk?

We believe it is vital that consumers have confidence in the long term nature of products and their operators, as ultimately the proposed funds are likely to have long life-cycle duration. We would therefore be concerned if the institutions offering such products were inadequately capitalised.

We do not believe it prudent to allow the substitution of professional liability insurance for “real” capital. Professional liability insurance should be seen as a last resort by those seeking protection and / or compensation and in many cases such insurance may be either excessively expensive or unavailable to meet operational and other losses. Also, the short term nature of insurance means limiting the ongoing confidence that consumers will need to have in relation to operators. We believe that an appropriate capital base is the best protection for consumers. After capital, some form of bank guarantee (by an appropriately rated Approved Deposit Institution) may be acceptable, but again we question the long term nature and implication of such arrangements.

In the Australian context, we note the recent changes to capital requirements to, generally, increase the capital of operators of managed investment schemes. We would not like to see a lower capital standard in other jurisdictions for like products, as this may result in arbitrage opportunities for unscrupulous providers.

Q3.17 Are there other means to ensure the policy objective of independent oversight is met? If so please explain these other means and why they should be permitted.

The concept of independence is fundamental in relation to providing confidence and assurance to investors that their interests are being both upheld and protected. This can be achieved, as the paper suggests, by the operation of a trustee, a board with a majority of independents or through a compliance committee. We support such proposals.

In our view, it would be beneficial to provide further guidance on the definitions of “independence” and “independent”. In various jurisdictions there is likely to be different interpretations of what meets the definition of an “independent” director, specifically regarding the time an ex-executive needs to be removed from the operation of a business to meet the independence definition. It would also be beneficial to state the minimum number of members expected to be required for the effective operation of an independent oversight committee.

It would be wise to ensure that the proposed five day reporting period for non-compliance is consistent with other reporting requirements of the participant country's regulators. It would be unfortunate if a different reporting regime was introduced for passport related products, relative to non-passport products, as it is likely that operators will have the one compliance reporting system in which they assess breaches. Further guidance would therefore be valuable in relation to the "materiality" of items that warrant reporting to the local authorities. In our view, the Ministers should agree the application of the stricter of each home or host country's reporting requirements.

Q3.18 Should an independent oversight entity be permitted to conduct a compliance audit?

It is important that the independent entity provides some form of certification over their compliance with, among other things, the passport compliance rules. We do not believe however such a certificate is adequate to provide comfort as the body is not qualified to provide assurance, nor can they be independent of their own actions. From our discussions with independent Boards/Trustees currently operating managed investment or collective investment schemes they would be most reluctant to provide assurance over compliance with regulations without the support and challenge of an assurance professional who ultimately opines on such compliance.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in an entity's financial report and compliance with laws and regulations. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report or failings in relation to compliance with regulations, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's ability to prepare a financial report that gives a true and fair view and that ensures compliance with relevant laws and regulations.

An auditor applies professional scepticism, which is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. Professional scepticism manifests itself not only through the auditor obtaining corroborating evidence for management's assertions, but also challenging management's assertions, actively considering whether there are alternative treatments that are preferable to those selected by management, and documenting the approach, the evidence obtained, the rationale applied and the conclusions reached. Throughout the audit, the auditor adopts a questioning approach when considering information and forming judgements and conclusions.

In our view, it would be impossible for the independent oversight entity to adequately provide such scepticism, as they would be reviewing and auditing their own systems and compliance frameworks. We therefore strongly believe that assurance over passport compliance must be conducted by an assurance professional, in accordance with international auditing standards and that this function should not be performed by the oversight entity.

Q3.19 Should an independent oversight entity be permitted to self-certify its own compliance in respect of its own obligations under the passport rules instead of arranging its compliance to be audited in any circumstances? If so, under what circumstances should such self-certification be allowed and how can the potential conflict of interests be satisfactorily mitigated?

As detailed above, we do not believe it is appropriate for an oversight entity to self-certify compliance with the passport rules.

Q3.20 Would there be any practical difficulties in an auditor providing the opinion proposed? If so please elaborate and identify any alternative measures or alternative form of report that would sufficiently address the policy objective of ensuring compliance through independent checking where reasonable (for example, a review engagement providing negative assurance or an agreed upon procedures report from the auditor).

Prior to discussing the form of reports that may be provided by an auditor, we would like to address the segregation of the roles of auditor of the financial statements of the passport fund and the compliance with the passport regulations. We see this segregation of roles being inefficient and potentially ineffective in executing a sound audit of both functions. Significant value exists in having the person or firm auditing a funds financial statements also auditing compliance with the regulations. While particular firms may choose to segregate these roles to ensure people with appropriate skills conduct the audits, to mandate their segregation is in our view, inappropriate. If the desire is to ensure the segregation of audit of the operators financial statements and their compliance with the regulations, we suggest that it is the “split” that is mandated, not the independent role of assuring a funds financial statements and its regulatory compliance.

The audit of a funds financial statements and its compliance with regulations by the one person or organisation will ensure an efficient and effective audit as some audit procedures will only be required to be undertaken once. In conducting such audits we are confident that the practitioner would have the investors’ interests’ front of mind.

In Australia there is segmentation between compliance plan auditor and the auditor of the Responsible Entity (“RE”, or in passport language the “operator”) (not the fund financial statements) due to the philosophy that the compliance plan auditor should have the best interest of the investors “front of mind”, while the auditor of the RE should consider more the interests of the shareholders of that corporate entity. There appeared to be a belief that there may be a conflict of interest if auditing both the compliance plan and the RE. There is no prohibition on the compliance plan auditor also performing the statutory audit of the fund’s financial statements. If the recommendation per the consultation paper was adopted, then in Australia there would be three auditors involved in what is effectively one audit arrangement – the operator, the fund financial statements and regulatory compliance. In our view, this would be a very poor outcome from an efficiency perspective, which would ultimately impact the costs charged to the funds and ultimately investors. It may result in Australian domiciled funds being at a competitive disadvantage.

While the current separation of these roles in Australia is not a major concern of EY or the audit profession, no doubt it is less efficient than having, where appropriate and if legislatively possible, the one audit partner responsible for the three engagements (compliance plan, fund financials and RE financials). The efficiency savings would arise due to the common processes/accounts that the fund financials and the RE financials have, such as RE and Investment management fees/income. Other efficiencies would arise when undertaking compliance reviews of the fund (for the compliance plan audit and passport rules) and of the RE (for the Australian Financial Services Licence audit). A potential additional benefit may be improved engagement with the board/compliance committee if there was a consistent audit partner rather than having interface with two audit partners and / or audit teams.

In relation to the form of audit opinions, there are three predominant styles of assurance reports that auditors can and do provide. The first is an audit opinion, which is a “reasonable assurance” report, the second is a review opinion, which is a “limited assurance” report, and finally there is agreed upon procedure reports which comment on very prescriptive testing performed. Typically, in relation to financial statements, an auditor will provide an assurance opinion, as it is possible for the auditor to appropriately test internal controls and conduct substantive procedures (eg confirmations, analytic reviews) to get to an appropriate level of evidence and confidence to provide the audit opinion. Limited assurance (review opinions) are more common in relation to internal control reviews and compliance with regulations/standards as it can be challenging to do adequate testing over the full year to obtain the necessary level of comfort that a positive audit opinion requires. While a positive level of assurance is possible, there is a time/cost impediment associated with such assurance. We therefore feel that based on the balancing of cost, efficiency and effectiveness for investors that a negative assurance review opinion should and would be adequate. Such an opinion would, under international auditing standards, state words to the effect that “Based on the testing performed, nothing has come to our attention to indicate that the Operator has not materially complied with the passport requirements as detailed in...”

Q3.21 Is this the most appropriate approach to ensure there are adequate standards which are applied consistently?

International auditing standards are the appropriate basis on which to develop an assurance opinion. It would be desirable to obtain a high level of consistency in respect of applicable standards across each of the passport country’s regulators, as this will provide clarity and certainty of all users of the report regardless of their county domicile.

We do note that the consultation paper requires the auditor to provide their report to the Operator, the independent oversight entity, the home regulator and each host. From a practical perspective we suggest that the auditor’s report be addressed and delivered to the independent oversight body and that this body then ensures, via the operator, that the report is issued to the appropriate authorities? We also suggest that the audit opinion be made available to investors, perhaps via the operator’s web-site.

Terms of reference could be developed to provide an overall framework on the procedures to be performed for the compliance audit. This would ensure consistency in audit procedures performed and reporting formats adopted and better align and harmonise passport requirements.

Q3.28 Is it appropriate for a host regulator to require financial statements and audit reports to be translated to an official language of the host economy? If not, why not?

Translation of reports into local host country languages is not an unreasonable request, but it is essential that this does not become a burdensome and impractical matter. It would be unfortunate if the benefits of the passport product were overcome by administrative and costly processes which resulted in operators not issuing product in certain jurisdictions.

We note that this question references just financial statements and audit reports, whilst the explanatory paragraph in the consultation paper appears to have a wider brief of “all reports” being translated. It would be beneficial to clarify the full translation requirements and perhaps for the local authorities to outline specified applicable languages well before the proposed passport initiative becomes operational.

Conclusion

Thank you again for the opportunity to provide input into this important initiative. If EY can provide any further assistance or if you would like to clarify any aspect of this consultation response, please do not hesitate to contact us.

Yours faithfully



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