



July 4, 2014

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, East Greenhills
Mandaluyong City, Metro Manila

Attention: VICENTE GRACIANO P. FELIZMENIO, JR.
Director, Markets and Securities Regulation Department

Gentlemen:

We thank you for giving us this opportunity to submit our comments on the Consultation Paper for Arrangements on the Asia Region Funds Passport (the ARFP).

Please find below the initial comments of the Exchange on the Consultation Paper.

1. We agree with the intention that the rules will not restrict the legal structure of passport funds and will only require that a passport fund be regulated as a Collective Investment Scheme (CIS) by the home regulator in a manner consistent with the CIS-related principles and assessment methodology of the International Organization of Securities Commissions. In relation thereto, should the form of the applying passport fund not be one of the recognized legal structures for a CIS in the Philippines, we note that there will be a need not only to require information as to the merits and risks of the fund but to specify information on its unique or peculiar features. Minimum requirements for a more extensive approach in educating investors about the passport fund may be necessary as well.
2. We note that the intent under the passport arrangements is that the host economy laws will prevail with respect to the interaction of the passport fund with investors. We also note that the general information/Part 1 of the required information for registration will be the address (including an electronic address) for receipt of notices in the host economy and the name of the person to whom notices should be sent. We wish to clarify if the actual presence of such designated contact person in the host economy will be a minimum requirement under the passport rules or if such matter is also intended to be covered by the laws of the host economy.

3. In relation to consultation question number 3.7, is there an intent that there will be an audit of the home economy laws to verify its compliance with passport rules? If so, who will conduct such an audit? Is it envisioned that an inter-economy council or committee will be established for such purpose or for other purposes?
4. In relation to the contemplated audit of the passport fund with respect to its compliance with passport rules and its defined set of obligations for the subject audit period, if the passport fund is found not to be compliant with the said rules and has not met certain obligations, will the powers of the host regulator be limited to the endorsement of the matter to the home regulator for appropriate action and the issuance of a stop order?
5. In relation to Consultation Question number 3.16, where professional indemnity insurance will be permitted as a substitute for capital sought to address professional liability risk, we believe that there should be a set of minimum standards for the qualifications or eligibility of the insurance or indemnity provider and minimum requirements for the terms and level of such coverage.
6. In relation to Consultation Question number 3.22 and 3.23, is it envisioned that the allowable investments can be restricted further by host regulators where it is perceived by the said regulator that its investing public may not have sufficient knowledge or experience as to a particular asset and its behaviour?
7. In relation to Consultation Question number 3.28, we believe the translation of the financial statements and audit reports to the official language of the host economy should not be mandatory as this may not be a practicable requirement. An issuer may consider, however, providing this as a value-added feature or advantage of its passport fund/s. The fact that there will be no such translation must be clearly conveyed to the potential investor at the point the offer is made.
8. What is the envisioned extent of the powers of the independent oversight entity? If the said entity is separate from the board of directors of the passport fund, will it have the power to overrule the actions of the board of directors of the passport fund? What is the consequence on the oversight entity if it fails to report the non-compliance with the regulator/s?

There seems to be an inherent conflict of interest where the board of directors is the chosen form of oversight for a passport fund. Although half of the board is required to be independent where it also acts as the oversight entity, there may be an overlap between the oversight entity's duty of timely reporting the non-

compliance and the board's mandate to protect the interests of the passport fund/company by exploring possible measures of curing the non-compliance.

9. Although already mentioned at the June 25, 2014 dialogue, it is worth reiterating that there is a need to align the relevant regulation among the three regulators of CIS in the country, that is, the Bangko Sentral ng Pilipinas, the Insurance Commission and the Securities and Exchange Commission (SEC), not only with the intent of harmonizing them but with the goal of making the country a more attractive option to potential passport fund applicants and ultimately to the investing public. In particular, a revisiting of the capital control and foreign exchange restrictions and a clarification of the tax treatment of such passport funds would be critical.
10. Finally, we agree with the general framework of the intended passport rules and recognize its potential contribution to the advancement of the capital market and investor protection on a global level. Echoing one of the challenges of regional integration mentioned at the June 25, 2014 dialogue with the SEC which is awareness about the ARFP, its implications and possibilities, we hope that all affected stakeholders in the Philippines will be regularly apprised of material developments on the proposed framework to provide opportunities for timely intervention as may be necessary.

Thank you very much.

Very truly yours,



HANS B. SICAT
President and CEO