



**Asia-Pacific
Economic Cooperation**

Asia Region Funds Passport

*Annual Implementation Report
2019 – 2020*



ASIC
Australian Securities &
Investments Commission



Australian Government

The Treasury



金融庁
Financial Services Agency



FMA
FINANCIAL MARKETS AUTHORITY



Financial Services
Commission



KSD



Korea Securities
Depository



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Chairperson's Report



Sureerut Suradecha

**Chairperson of the Asia Region Funds Passport Joint Committee (2019-2020)
Director of Investment Management Policy Department,
Securities and Exchange Commission of Thailand (SEC)**

It is our pleasure to publish the fourth Annual Implementation Report of the Joint Committee (JC) on the Asia Region Funds Passport (ARFP) which covers the activities of the JC from October 2019 to September 2020 in particular.

Our thanks and appreciation go to each member country of the ARFP for their cooperation and contributions to the work of the JC over the period, including the attendance at the seventh JC face-to-face meeting in Singapore in October 2019 and the eighth JC virtual meeting in May 2020 amidst the coronavirus pandemic (COVID-19).

It has been a remarkable period in the development of the Passport initiative with the Republic of Korea completing the revision of the Financial Investment Services and Capital Markets Act and other relevant rules required for the implementation of the ARFP in May 2020. The Republic of Korea anticipates that it will be operationally ready to receive registration applications under the ARFP by the end of 2020, following Australia, Japan, Thailand, and New Zealand.

With the challenges and impact of COVID-19 on the economy and asset management industry, each member country has been working closely with the industry and provided regulatory relief where necessary, especially in relation to reporting standards, to alleviate the difficulties of working in restricted conditions. Despite the challenges confronted, the JC agreed to continue engaging and raising awareness in the industry as well as highlighting the opportunities that the ARFP presents fund operators, investors, and the capital market at large. The JC also considered the direction of the Passport during and post COVID-19.

As part of the implementation support provided by the JC, the following agenda remains a priority for operationalising the ARFP in the coming period:

1 *Developing interest in the ARFP*

Given the goals and the opportunities of the ARFP, the JC aims to continue to raise awareness of the ARFP framework in each of their economies and consider how the ARFP meets the needs of the industry while providing a more diverse range of investment choices for investors.

2 *Outreach and communication with the industry*

The JC believes that outreach and communication with potential participants in the ARFP remains important. The member countries continue to reach out to private sectors in their countries and provide regulatory resources including via online platforms to support CIS operators, service providers, and advisors in utilising the ARFP.

3

Enlargement and interoperability

Considering the potential of the ARFP and the development of financial sectors in the Asia region, cooperation and engagement with other economies in the region is important. Interested economies were invited and welcomed to attend the JC meeting in October 2019 as observers to explore the opportunities of becoming a Subsequent Participant. Despite the COVID-19 restrictions on the ability to conduct face-to-face meetings, the JC members continue to exchange ARFP information with other passport schemes and share information and guidance about the ARFP with interested economies.

The JC is strongly committed to the success of the ARFP. In addition to the above agenda, the JC recognises that post-trade issues such as clearing and settlement are important elements of developing and operationalising a successful framework.

Last but not least, we sincerely hope to develop the ARFP more extensively and that the COVID-19 situation around the world would be curbed soon.

General Information

The ARFP

The ARFP is a region-wide initiative being led by Australia, New Zealand, the Republic of Korea, Japan, and Thailand. This multilateral framework is intended to facilitate the cross-border offering of eligible collective investment schemes and support the development of the fund management industry while ensuring investor protection in the participating countries.

In joining the Memorandum of Cooperation (MoC) for the ARFP, participants share the following goals:

- i. deepening the region's capital markets to attract finance for economic growth in the region;
- ii. strengthening the capacity, expertise, and international competitiveness of financial markets in the region and the funds management industry, with a view to supporting sound economic development;
- iii. facilitating the channelling of the region's savings within the region and growing the pool of funds available for investment in the region;
- iv. providing investors in each of the economies with a more diverse range of investment opportunities, enabling them to better manage their portfolios and meet their investment objectives; and
- v. maintaining the legal and regulatory frameworks which promote investor protection, fair, efficient, and transparent markets for financial services, supporting financial stability and providing high standards in the management and distribution of collective investment schemes.

Timeline

September 2015	Signing of the statement of understanding on the establishment of the ARFP at the APEC Finance Ministers' Meeting. *Six economies signed: Japan, Australia, the Republic of Korea, New Zealand, the Philippines and Thailand.
April 2016	Signing of the MoC: Japan, Australia, the Republic of Korea, New Zealand. *Thailand also signed the MoC in June 2016.
June 2016	The MoC entered into force.
November 2016	The ARFP Joint Committee's first Face-to-Face meeting in Kuala Lumpur, Malaysia.
April 2017	The ARFP Joint Committee's second Face-to-Face meeting in Tokyo, Japan.
July 2017	The ARFP Joint Committee publishes its first Annual Report for 2016 – 2017, and draft interim Guidance on host economy's laws and regulations relating to ARFP for consultation.
October 2017	The ARFP Joint Committee's third Face-to-Face meeting in Bangkok, Thailand.
January 2018	The ARFP Joint Committee publishes the report on submissions on the draft interim Guidance on host economy's laws and regulations relating to ARFP.

April 2018	The ARFP Joint Committee's fourth Face-to-Face meeting in Sydney, Australia.
September 2018	The ARFP Joint Committee's fifth Face-to-Face meeting in Auckland, New Zealand.
February 2019	The ARFP goes live with Japan, Thailand, and Australia ready to receive registration applications from local prospective Passport funds and entry applications from foreign Passport funds.
May 2019	The ARFP Joint Committee's sixth Face-to-Face meeting in Seoul, the Republic of Korea.
July 2019	New Zealand confirms it has completed the requirements for implementation and that it is ready to receive registration applications from local prospective Passport funds and entry applications from foreign Passport funds.
October 2019	The ARFP Joint Committee's seventh Face-to-Face meeting in Singapore.
January 2020	The ARFP Joint Committee publishes the Guidance on host economy laws and regulations relating to the ARFP 2020.
May 2020	The ARFP Joint Committee's eighth meeting (virtual meeting). The Republic of Korea confirms it has completed the amendment of laws and regulations for the implementation of the ARFP and will be ready to receive applications for fund passporting by the end of 2020.

Investor protection

Under this framework, when a fund exports to another participating economy, the fund must comply with:

- the regulations of the home economy in which the fund is registered as an ARFP fund applying in relation to the operation of the fund;
- applicable regulations applying in relation to the offer of the fund in any host economy; and
- the ARFP Passport Rules.

This is expected to promote a high level of investor protection measures.

ARFP framework

Under the ARFP framework, efforts are made to make mutual the entry processes for funds that are managed in accordance with rules agreed upon between the relevant regulators of the participating economies.

Broadly speaking, when exporting collective investment schemes, it is necessary to prepare application documents that are compliant with the regulations of the export destination country (the host economy). Under the ARFP framework, if funds comply with the Passport Rules, and there is an appropriate application to relevant authorities from the host economy, the fund will be able to be offered after not more than 15 business days upon receipt of a complete application.

ARFP Framework

Eligible CIS

- CIS must be eligible for the passport, and apply to the Home Regulator
- the Passport Rules set out:
 - types of CIS that are eligible
 - where the CIS must be located
 - offers must be made in Home Economy

register as a
passport fund in
Home Economy

Home Economy Requirements

- the Home Regulator will apply the Passport Rules including:
 - experience, capacity, good standing of the operator
 - funds under management
 - custody arrangements
 - risk management
 - investment restrictions

notify the
Host Economy

Host Economy Requirements

- passport fund must notify the Host Regulator
- the Host Regulator will assess the notification
- CIS must meet the Host Economy requirements in relation to:
 - disclosure (including annual and periodic reports)
 - distribution and licensing of distributors
 - complaints handling

ARFP membership for economies

- must be signatory to Appendix A of the IOSCO MMOU
- must have been assessed by the IMF/World Bank under an FSAP to have broadly implemented relevant IOSCO Principles
- must not be listed on the Financial Action Task Force's list of high-risk/non-cooperative jurisdictions

Summary of the Joint Committee Meetings

7th *Seventh Face-to-Face Joint Committee Meeting Singapore (21-22 October 2019)*

The JC held its seventh face-to-face meeting in Singapore on 21-22 October 2019. Representatives from Australia, Japan, New Zealand (Deputy Chair), the Republic of Korea, and Thailand (Chair) attended the meeting.



The JC agreed:

- to revise the Guidance on host economy laws and regulations relating to the ARFP and publish it on the ARFP website to make the Guidance more user-friendly for the industry;
- to engage and share information about the ARFP with the European Securities and Markets Authority (ESMA) as well as the Pacific Alliance (PAC); and
- to raise awareness of the ARFP and consider the challenges faced by the industry by providing essential information including the FAQs and continuing to engage with the industry.

The JC also welcomed observers from the Monetary Authority of Singapore, Philippine Securities and Exchange Commission, Securities and Futures Bureau of Chinese Taipei, Securities and Futures Commission of Hong Kong, and Securities Commission Malaysia on the second day of the seventh face-to-face meeting.



Eighth Joint Committee Virtual Meeting (28 May 2020)



The JC planned to hold its eighth face-to-face meeting in Bangkok on 21-22 April 2020. However, due to the COVID-19 related restrictions on travel and gatherings as well as the concern over the health, well-being, and safety of the

attendees, the eighth JC meeting was held in a virtual format on 28 May 2020 instead. The meeting was hosted by the SEC Thailand (Chair) and was attended by representatives from Australia, Japan, New Zealand (Deputy Chair), and the Republic of Korea.

The JC agreed:

- to consider the process and the scope of commencing a review on the Passport Arrangements as provided for under the MoC;
- that the JC should provide local industry representatives' contact information on the ARFP website where possible to enable direct engagement with the industry in member economies, in addition to publishing the FAQs on the ARFP website; and
- that the next meeting of the JC will be held virtually given the continued uncertainty due to the COVID-19 pandemic.

Implementation and Operation

Passport now live

The Asia Region Funds Passport is now implemented in every member country. Following the implementation of the ARFP in Australia, Japan, New Zealand, and Thailand, the Republic of Korea has completed the revision of the Financial Investment Services and Capital Markets Act (FSCMA) and other relevant rules required for the implementation of the ARFP. The Republic of Korea anticipates its operation to be ready for passport applications by the end of 2020.

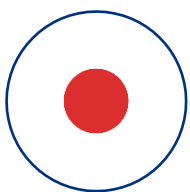
Separately, the first application under the ARFP is in progress with the FMA working closely with the applicant. With the success of the first mover, additional applications are expected in other passport economies.



Australia

Australia remains ready to export and import passport funds.

ASIC has worked on updates to its [Regulatory Portal](#), information on its website, and relevant forms and processes to support the administration of the ARFP.



Japan

The Financial Services Agency (JFSA) established its local framework for application procedures for ARFP registration in 2017, and published the Implementation Guidelines on its [website](#) together with other relevant documents produced by JFSA.

JFSA has also provided the Japan industry body's contacts on the [ARFP website](#) in order to facilitate foreign CIS operators seeking to offer funds in Japan. In addition, JFSA has also provided the links of statistical data published by industry body on the [ARFP website](#).

During the period, JFSA has been engaging with several domestic and overseas management firms to raise awareness of the framework.



New Zealand

The Financial Markets Authority of New Zealand (FMA) continues to work with the Passport's first applicant for registration as a passport fund. Further engagement with industry is expected once this application has been approved.

The FMA also maintains information on its [website](#) for both New Zealand passport funds wishing to offer into another passport country and for foreign passport funds wishing to offer into New Zealand.



Republic of Korea

The Republic of Korea has finalised regulatory preparations and officially kick-started the Passport scheme in 27 May 2020. Since the passage of the Passport-related revision bill on FSCMA on 31 October 2019, the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) have thoroughly reviewed the legal architecture in the Republic of Korea to ensure that the Passport Rules can be duly transposed into local laws and regulations in regard to registration and approval of Passport funds. Such changes have well trickled down to sub-regulations (including but not limited to enforcement rules and decrees), which came into force on 27 May 2020 in line with the official launch of the Passport scheme. Plus, the post-trade processing and IT infrastructure for cross-border trading are overhauled and fine-tuned for the context of Passport-driven cross-border trading.

Under the auspices of FSC and FSS, a Passport-specific handbook has been published with guidance on overseas distribution, which has been widely circulated for the benefit of the industry. Major asset managers and other interested market players keep monitoring the Passport-related trends in Australia, Japan, New Zealand, and Thailand before deciding on their next move.

With the Passport scheme set in motion, the FSC and FSS plan to engage in close dialogue with the industry and promote the creation and distribution of Passport funds.



Thailand

Thailand is ready to assist Collective Investment Scheme (CIS) operators in passporting funds.

The SEC has implemented the regulatory framework necessary for establishing the ARFP since 16 February 2018 and continued to promote the ARFP with the industry through various opportunities such as the quarterly meetings between the SEC and the Association of Investment Management Companies.

In addition to publishing the guidance on the SEC's laws and regulations applicable to the ARFP on both the ARFP and the [SEC website](#), the SEC has also provided the Thai industry body's contacts on the [ARFP website](#) in order to facilitate foreign CIS operators seeking to offer funds in Thailand. The [overview](#) of Thai fund industry is also available in English on the ARFP website with the summary of relevant procedures involved in fund passporting and list of local distributors. The overview is aimed to alleviate the difficulties in finding relevant statistics and business partners in Thailand.

Guidance

Having received comments from the industry regarding the difficulty in doing research on fund passporting to other jurisdictions, the JC agreed to revise the Guidance on host economy laws and regulations relating to the ARFP to be more user-friendly as well as updated and published it on the [ARFP website](#) in January 2020.

The key information covered in the Guidance includes:

- **Disclosure** e.g. disclosure at point of registration and ongoing disclosure requirements;
- **Capital controls** e.g. reporting requirements for funds, CIS operators, or local intermediaries in the Republic of Korea and Thailand;
- **Taxation** e.g. tax obligations for funds, CIS operators, local and foreign investors in each jurisdiction;
- **Distribution** e.g. appointment of local distributors or intermediaries and sales conduct in each jurisdiction;
- **Local agent** e.g. appointment of local agents or representatives and their responsibilities;
- **Access to financial markets to sell ETFs** e.g. listing requirements for the stock exchanges of each economy; and
- **Privacy and Anti-money Laundering Legislation (AML)** e.g. protection of personal information and AML requirements for reporting financial institutions.

The updated Guidance provides information on various requirements of each jurisdiction that are likely to be applied to CIS operators participating in the ARFP framework. It is not intended to be exhaustive or to constitute legal advice and may be revised from time to time. When in doubt, CIS operators should seek professional advice on the regulations required to be complied with by CIS operators seeking to offer funds in each member country. Additionally, CIS operators using the ARFP are subject to the Passport Rules as stipulated in Annex 3 of the MoC.

Amendments to the MoC

At the seventh JC face-to-face meeting in Singapore on 21-22 October 2019, several interpretative matters regarding the MoC were discussed including matters relating to:

- group limit and method to consider the same group of entities in each jurisdiction;
- single entity limit and restrictions to index funds;
- how to define acceptable risk and related documentation; and
- time taken to provide information of beneficiaries.

At the eighth JC virtual meeting on 28 May 2020, the JC discussed the timeline to address the consolidated issues from the past meetings for amending the MoC. In addition, the JC also agreed to consider the process and the scope of commencing a review on the ARFP as provided for under the MoC.

Enlargement and Interoperability

The JC has continued to engage with other economies that may be interested in joining the AFRP or are interested in fund passporting schemes by inviting representatives of other economies to attend the JC meetings in an observer capacity and sharing of information. The JC endeavours to assist economies that are interested in joining the Passport in following the Procedure for Becoming a Subsequent Participant as stipulated in the MoC.

At the seventh JC meeting, the JC welcomed representatives from Chinese Taipei, Hong Kong, Malaysia, Philippines, and Singapore in an observer capacity.

The JC has also exchanged ARFP information with the ESMA and the PAC.

The COVID-19 pandemic has prevented the JC from holding face-to-face meetings; however, the JC anticipates that there will be future opportunities for the industry to further learn about and engage with the ARFP. The member countries will continue to provide information about the ARFP and publish regulatory resources including the FAQs on the ARFP website for the industry and interested economies.

Industry Outreach



Industry engagement

Members of the Joint Committee continue to engage with the industry and officials within the Asia Pacific region.

In October 2019, after the seventh face-to-face Joint Committee meeting in Singapore, an Industry Day event was hosted by the Monetary Authority of Singapore with more than 350 attendees from asset management companies and insurance firms. The JC presented passporting processes in each jurisdiction and provided a Q&A session regarding practical issues for those interested in utilizing the ARFP. Additionally, participants also heard from fund managers, tax advisors, and securities services providers who provided insights into experiences in cross-border provision of fund management services.

Despite being unable to hold an Industry Day event in 2020 due to the COVID-19 outbreak, the JC members continue engaging with the industry in their jurisdictions and provide guidance to support the utilisation of the ARFP as well as updating relevant information. The Republic of Korea has also completed the amendment of relevant regulations necessary for the implementation of the ARFP and the FSC and FSS have discussed with asset management companies who are interested in the framework on how to effectively passport funds to other jurisdictions and identify potential challenges such as handling taxes and holding unit holders' meetings. The JC endeavours to raise awareness of utilising the ARFP and assist CIS operators wishing to passport funds under the ARFP framework.



ARFP website

Following the fourth JC face-to-face meeting in Australia in April 2018, the hosting and administration of the ARFP website have been rotated and maintained by the Chair of the JC in each period. Successful migration of the website was conducted by the Financial Markets Authority of New Zealand in October 2019 for the SEC Thailand to take over the hosting of the ARFP website.

The JC believes that the ARFP website remains important to the framework as it provides an official and reliable source of information for the industry and economies interested in the ARFP as well as being one of the contact channels.

With the aim to communicate and raise awareness of opportunities provided by the ARFP to the industry, the content of the website was improved and updated throughout October 2019 – September 2020 with the following key changes made:

- publication of the revised Guidance on host economy laws and regulations relating to the ARFP;
- addition and update of content from member countries; and
- inclusion of contact details of the industry body in member countries.

The Republic of Korea, as the new Chair of the Joint Committee, took over the hosting and administration of the ARFP website from the SEC Thailand starting from October 2020.