



**Asia-Pacific
Economic Cooperation**

Asia Region Funds Passport

*Annual Implementation Report
2020 – 2021*



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Chair's Report

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Chairperson of the Asia Region Funds Passport Joint Committee (2020-2021)

Director of Asset management Division,

Financial Services Commission (FSC)

This is the fifth annual report of the Joint Committee of the Asia Region Funds Passport (ARFP). The report covers the activities of the Joint Committee from October 2020 to October 2021.

My thanks go to each member of the Joint Committee for their engagement and cooperation over the year. I appreciate the contribution of every JC member, including their participation at the 9th and 10th virtual JC meetings amidst the coronavirus pandemic (COVID-19).

This year was a time during which the unceasing endeavors of JC members bore fruit. Such efforts culminated in January 2022, when the Financial Markets Authority (FMA) of New Zealand registered a regulated Collective Investment Scheme based in New Zealand as the first Passport Fund. It is a remarkable achievement.

Despite challenges and obstacles presented by COVID-19, member countries consistently interacted with industry players with an aim to genuinely understand market reception of the ARFP. JC members continue to raise awareness of the ARFP on both the domestic industry level and among non-JC countries, on an international level. Such dedicated efforts continue to propel the ARFP initiative forward.

To further develop the passport framework, the JC will focus on the following agendas in the coming year.

1. Disclosing relevant tax regulations of each member country.
2. Continuing communication with the industry to facilitate awareness of the ARFP.
3. Engaging with non-member Asia Pacific countries to encourage ARFP participation.

General Information

The ARFP

The ARFP is a region-wide initiative led by Australia, Japan, New Zealand, the Republic of Korea 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 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 channeling of the region's savings within the region and increasing 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: Australia, Japan, New Zealand, the Republic of Korea, Thailand and the Philippines.
April 2016	Signing of the MoC: Australia, Japan, New Zealand and the Republic of Korea. *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.
April 2021	The ARFP Joint Committee's ninth meeting (virtual meeting).
October 2021	The ARFP Joint Committee's tenth meeting (virtual meeting).

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.

ARFP framework

Under the ARFP framework, efforts are made to implement mutual registration processes for funds managed in accordance with rules agreed upon between 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 an appropriate application is submitted to relevant authorities from the host economy, the fund will be eligible 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

Ninth Joint Committee Virtual Meeting

(22 April 2021)

The JC held its ninth meeting in a virtual format on 22nd April 2021 due to the risks and concerns about COVID-19. The meeting was hosted by the Chair, the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) of the Republic of Korea, and attended by representatives from Australia, Japan (Deputy Chair), New Zealand, and Thailand.



Progress of the Passport

Following the successful implementation of the Passport scheme by the Republic of Korea at the end of 2020, all JC members are now ready to receive registration applications from prospective local passport funds and entry applications from foreign passport funds.

Despite challenges from COVID-19, the JC has and will continue to gauge and promote industry awareness of the Passport. Furthermore, the official website of the Passport (<https://fundspassport.apec.org>) will continue to inform interested fund operators about essential information and latest developments.

The JC discussed interoperability with other APEC passport arrangements and potential membership enlargement, as well as generally agreeing to welcome participation of non-member countries as observers to JC meetings. The JC also shared thoughts on strategic goals and targets of the Passport scheme, and commenced discussion on initiating the review of the Passport arrangements pursuant to Paragraph 6.2(d) of the Memorandum of Cooperation (MoC).

Tenth Joint Committee Virtual Meeting

(29 October 2021)



The JC held its tenth meeting in virtual format on 29th October 2021 due to the restrictions on travel and gatherings and concerns caused by the COVID-19. The meeting was hosted by the Chair, the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) of the Republic of Korea, and attended by representatives from Australia, Japan (Deputy Chair), New Zealand, and Thailand. As of the end of October 2021, the

Chairmanship was transferred to the Japan Financial Services Agency (JFSA).

Progress of the Passport

The JC explored the appropriate timeline and specifics regarding the review of the Passport scheme. A public consultation survey covering basic market intelligence and industry sentiment was proposed and generally agreed on. Furthermore, the JC discussed changes to Paragraph 9 of the MoC, intended to heighten flexibility when implementing future MoC amendments. The JC also discussed potential collaboration under the key priorities for APEC 2022 - notably sustainable finance and digitization.

Along with individual efforts, the JC works together to raise industry awareness of the Passport. The official website of the Passport (<https://fundspassport.apec.org>) will continue to inform market participants on essential information and latest developments.

Implementation and Operation

Passport is now live

The Asia Region Funds Passport is now implemented in every member country, with one country close to registering a Passport Fund.

Australia

Australia remains ready to export and import passport funds.

The Australian Treasury shared local legislative updates on the Corporate Collective Investment Vehicle (CCIV), the draft proposal of which was pending for parliamentary approval. CCIVs are a new type of collective investment vehicle with a corporate structure. A CCIV may either be retail or wholesale and is required to have one or more sub-funds with their own Australian Registered Fund Number. Each CCIV sub-fund must be registered and operated as a separate business within the CCIV structure, to which assets and liabilities are allocated. CCIVs will be taxed in Australia on a flow-through basis, hence proving to be more tax effective. Australia considers a CCIV may be already covered by the current passport regime.

Japan

The Financial Services Agency (JFSA) has not received applicants for the passport. JFSA also shared that market participants that designed products using the ARFP framework are considering local requirements such as investor protection, and taxation.

New Zealand

As of October 2021, the New Zealand Financial Markets Authority (FMA) is preparing to register a Regulated CIS based in New Zealand as a Passport Fund, which will likely be the first passport granted under the ARFP regime.

Republic of Korea

Korea has not received applications of yet, but continues to actively engage with the industry to identify potential areas of improvement. The Financial Services Commission (FSC) and Financial Supervisory Service (FSS) held an industry meeting on April 15th, 2021, where major asset managers noted the passport effectively removes the administrative burden of acquiring relevant licenses when operating overseas.

Industry players cited COVID-19 as a major hurdle to building relationships with key market players in host economies, given conventional methods of direct contact such as on-site interviews are restricted. Asset managers also mentioned unfamiliarity with diverse and complicated systems of taxation and aired views over the need to build a dedicated IT system to accurately process tax withholdings for foreign distributors.

The FSC and FSS will continue to closely work with the industry to promote the creation and distribution of Passport funds.

Thailand

Albeit no record of applications yet, the SEC received some queries from domestic distributors and overseas asset management companies regarding the offerings of passport funds under the ARFP and continue to raise awareness of the ARFP to market participants.

Amendments to the MoC

At the ninth JC virtual meeting on 22 April 2021, JC members shared their thoughts and ideas on how to approach MoC amendments in terms of method, scope and timeline.

The JC concluded that more detailed discussions could take place in the run-up to or during the next meeting with the aim of settling on a model by which the MoC can be duly modified through consensus in different jurisdictions.

At the tenth JC virtual meeting on 29 October 2021, the Chair invited the Australian Treasury to brief the JC members on its proposal to reform the procedure of MoC amendment. The proposed amendments aim to address the uncertainty caused by the current wording of Paragraph 9 of the MoC and to clarify the process for making amendments. According to the current MoC, if any member fails to implement the change by the specified date, the amendment will be ineffective and members who have already implemented the amendment will need to change their domestic law again to reverse the amendment.

The JC concluded that all members agreed on the necessity of reforming the MoC amendment procedures. However, the JC members agreed that the timeframe and other specifics should be further discussed.

Future Plans and Strategies

① Enlargement

- **Membership Enlargement and Participation of Observers**

The JC continues to engage with other economies potentially interested in ARFP membership and remains open to sharing feedback during such process.

To this end and for further development of the framework, the JC will consider inviting non-member participants as well as industry players and other interested parties as an observer of future JC meetings, taking into account the appropriate setting and restrictions due to COVID-19.

② The Roadmap

- **Strategic Goals and Targets**

The JC discussed the importance of setting specific goals and targets (e.g. 2025 or 2030 goals and targets, etc.) which would function as a strategic signpost for the Passport. The development of the future roadmap for the ARFP could be in conjunction with the review of the Passport Arrangements.

- **Pushing Forward New Fronts : ESG/SRI**

The JC discussed “Environmental, Social and Governance (ESG)” investing, also known as “Sustainable and Responsible investing (SRI)” as a possible goal for the Passport.

SEC explained the concept of ESG/SRI and how new investing and regulatory trends relate to the development of the Passport.

The JC members shared their views and interest and considered the option of integrating ESG elements in the Passport. However, given the ARFP framework is in the early stage of implementation, the JC concluded that the topic may be reconsidered at the later stage.

Review of the Passport Arrangements

At the tenth JC virtual meeting on 29 October 2021, the JC discussed the scope and purpose of the Review of the Passport, methodologies, and timeline.

The review seeks to gather market feedback as well as to identify approaches to further promote and develop the ARFP.

The Chair suggested a public consultation survey involving asset managers, distributors and other industry players to gauge industry sentiment over passport arrangements.

The JC generally agreed on the suggested content of the review, and all JC members agreed that the specific timing of the review should be addressed in a later meeting