



**Asia-Pacific
Economic Cooperation**

Asia Region Funds Passport

*Annual Implementation Report
2021 – 2022*



Contents

| | | |
|-----------|---|----|
| Section 1 | Chair's Report | 3 |
| Section 2 | General Information | 4 |
| Section 3 | Summary of the Joint Committee Meetings | 8 |
| Section 4 | Review of the Passport Arrangements | 10 |
| Section 5 | Amendments to the MoC | 12 |
| Section 6 | Implementation and Operation | 13 |
| Section 7 | Future Plans and Strategies | 14 |

Chair's Report

Yuji Yamashita

Chairperson of the Asia Region Funds Passport Joint Committee (2021-2022)

Deputy Commissioner for International Affairs

Japan's Financial Services Agency (JFSA)

It is my great honor to publish the sixth Annual Implementation Report of the Joint Committee (JC) on the Asia Region Funds Passport (ARFP). This report covers the activities of the JC from October 2021 to December 2022.

2022 was a year of great progress and achievement for ARFP.

First, in January 2022, the Financial Markets Authority (FMA) of New Zealand registered its first Passport Fund since the launch of the ARFP. It shows that the ARFP is making steady progress.

Second, the 12th JC meeting was successfully held in Tokyo in December 2022. It was the first face-to-face meeting since the Covid-19 outbreak. It could not have been realized without the full cooperation of JC members. I would like to take this opportunity to express my sincere gratitude to all JC members.

Third, the ARFP review process has commenced. At the 12th JC meeting, market participants and non-member jurisdictions were invited to share their views about the expectations and challenges of the ARFP. The resumption of dialogues with market participants and non-member jurisdictions after the pause due to COVID-19 was of great significance, in that it stimulates the interests of potential participants and clarifies the challenges to be addressed for the further development of the ARFP.

Fourth, the revision process of the Memorandum of Cooperation (MoC) has been carried out for the first time. This is truly a major milestone. We recognize that the MoC's revision to add more flexibility in the ARFP framework would underpin its further development.

In the last several years, our cross-border human, economic and financial activities have been restricted by COVID-19. As our lives are now coming back to normal, however, our cross-border economic and financial activities would be expected to be more active. I truly hope that our ARFP framework contributes to the common prosperity of the region.

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 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). |
| January 2022 | The first Passport Fund registered under the ARFP. |
| July 2022 | The ARFP Joint Committee's eleventh meeting (virtual meeting). |
| December 2022 | The ARFP Joint Committee's twelfth hybrid meeting in Tokyo, Japan. JC members participated in-person, while non-member jurisdictions and market participants joined online. |

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

Eleventh Joint Committee Virtual Meeting

(21 July 2022)

The JC held its eleventh meeting in a virtual format on 21 July 2022 due to the restrictions on travel and gatherings related to the Covid-19. The meeting was chaired by the JFSA and attended by representatives from Australia (Deputy Chair), New Zealand, Republic of Korea, and Thailand.



Progress of the Passport

In January 2022, the FMA of New Zealand registered a regulated Collective Investment Scheme (CIS) based in New Zealand as a Passport Fund. This is the first Passport Fund approved under the ARFP in a Home Economy. Currently, all JC members are ready to facilitate the necessary processes stipulated in the MoC.

At the eleventh meeting, the JC agreed in principle to amend the MoC with the view to making the amendment process of MoC more practical.

The JC also agreed to review the Passport scheme as stipulated in the MoC. The review would consider the obstacles and challenges the fund industry faces in using the passport scheme. The review would include consultation with fund industry participants and certain APEC non-member economies in the Asia Pacific region, who have previously shown interest in the ARFP but taken no further steps.

The JC was also informed about key priorities for APEC 2022 in sustainable finance.

Twelfth Joint Committee Meeting

(5 December 2022)

The JC held its twelfth meeting on 5 December 2022 in a hybrid format (both face-to-face and online). The meeting was chaired by the JFSA, and attended by representatives from Australia (Deputy Chair), New Zealand, Republic of Korea, and Thailand.

The JC was pleased to welcome online observers from the Monetary Authority of Singapore, the Securities Commission Malaysia, the Securities and Futures Bureau of Chinese Taipei, the Securities and Futures Commission of Hong Kong, and the Securities and Exchange Commission of Philippines.



Progress of the Passport

Pilot Fund Initiative

As the FMA of New Zealand registered a regulated CIS based in New Zealand as a Passport Fund which is the first Passport Fund approved under the ARFP, the JC invited the CIS operator of the fund to share their experience of the registration process, challenges of the ARFP framework, and next steps.

MoC Amendments

The JC discussed the timing for the implementation of the proposed amendments to the MoC agreed upon in previous JC meetings.

Passport Review

The JC is reviewing the passport framework as required under the MoC. As part of this review, the JC surveyed market participants and non-member economies about their interest in the ARFP framework and challenges regarding their participation. The JC shared a summary of the survey results and discussed the preparation of the ARFP review report.

Industry Day

The JC hosted “the ARFP Industry Day” in a hybrid format on 6 December 2022. This session attracted more than 100 participants from financial regulators and market participants in the Asia-Pacific region.

As part of the Industry Day session, the JC reported on the current status and future steps of the ARFP. Market participants and authorities from the jurisdictions participating in the JC also shared the trends and issues regarding the ARFP, as well as the market overviews and regulatory trends in each jurisdiction.

Review of the Passport Arrangements

At the twelfth JC in-person meeting on 5 December 2022, the JC shared the result of a public consultation survey of asset managers, distributors and other industry participants in each member economy as part of the Passport Review.

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

The survey included the following questions:

- the nature of their business
- their level of interest and/or readiness in participating in the ARFP
- factors that would improve participation
- factors that present a challenge to participation

Australia

- The response rate was low, with three entities responding. This low response rate indicates very little engagement in the ARFP. However, two of the respondents expressed interest in the ARFP.
- The respondents indicated that the expansion of funds and assets under management requirement, harmonization of disclosure requirements, harmonization of sales requirements among member countries, and expansion of member jurisdictions are important factors to consider.
- The respondents pointed out that compliance with local regulations, operational challenges related to foreign exchange and cooperation with host economy service providers are challenging.
- All respondents indicated the lack of tax neutrality as an issue.

Japan

- JFSA received 13 responses (9 operators and 4 distributors) and they showed interests in ARFP to some extent, suggesting that there are still some expectation from Japanese market participants.
- However, the level of readiness is low because they have concerns about the small number of member jurisdictions, tax neutrality and the lack of harmonization of disclosure and marketing-requirements.

New Zealand

- The FMA invited 68 retail fund managers to contribute to a review of the ARFP by completing a survey. The sector had a total of NZD183 billion assets under management ('AUM').
- At the time of publishing the survey, 24 fund managers were considered large enough to potentially meet the initial ARFP qualification requirements. The participation rate of those 24 fund managers was 83%. This participation rate was relatively high, however, the current level of interest in the ARFP remained low.
- Despite the low level of interest in participating in the ARFP, there appeared to be a longer-term interest, especially if certain changes and clarifications were made (e.g., reducing or removing the minimum AUM requirement).
- In addition to the common factors identified by other member countries the survey indicated that limiting the disclosure document requirements and adding wholesale funds to the ARFP scheme could increase the interest of participants and encourage a higher application rate.

Republic of Korea

- FSS/FSC received responses from 60 operators and 44 distributors. Of these, 7 operators and 6 distributors responded and showed interest in the policy relating to the ARFP.
- The level of interest increased with company size and overseas product launch / marketing experience, while interest was low in private / real estate funds. It was also shown that the correlation between interest and actual readiness was low.
- Both operators and distributors have low readiness, and less than 70% of those answered that it would take less than three years to prepare and 90% said it would take less than five years.
- Harmonization of sales requirements among member countries was pointed out as the most important factor to consider.
- The operators indicated that establishment of a system for compliance with local regulations and cooperation with local business operators such as agents and distributors are challenging, while the distributors pointed out that the inability to develop products that meet the needs of distributors and investors and linguistic challenges are issues.

Thailand

- SEC received responses from 3 CIS operators and 11 distributors. Overall, the level of interest and readiness of Thai respondents were relatively low.
- The CIS operators answered that knowing product preferences of investors and compliance with local regulations of Host Economies were obstacles, while the distributors pointed out that operational issues related to foreign exchange, and availability and accessibility of information, especially in Thai language, were the main challenges anticipated facing when participating in the ARFP.
- For factors that would promote the use of the ARFP, the CIS operators chose expansion of member jurisdictions while the distributors proposed ensuring tax neutrality.
- In addition, the CIS operators and the distributors requested for the provision of the Thai translation of MoC and the summary of MoC.

JC are now producing a report summarizing the results of the ARFP review, which is expected to be finalized by the end of 2023.

Amendments to the MoC

At the eleventh JC virtual meeting on 21 July 2022, the Chair invited the Australian Treasury to brief JC members on its proposal to reform the procedure for amending the MoC and responding to the comments from other jurisdictions.

The JC members agreed to the proposal, and would determine the effective date, considering the time required for the domestic processes of the members. JC would also continue to consider other amendments to the MoC approved by the JC in previous sessions.

At the twelfth JC face-to-face meeting on 5 December 2022, the Chair invited the Australian Treasury to lead the discussion on the effective date. The Australian Treasury proposed the end of December 2023, which would provide JC members enough time to process the amendments in their respective jurisdictions.

The JC concluded that all members agreed to work towards the proposed effective date and would pay attention to the member's internal procedures and circumstances.

Implementation and Operation

The Passport is now implemented in every member country.

Australia

Australia remains ready to export and import passport funds.

Australia continues to engage with industry and raise awareness of the ARFP.

Japan

The JFSA has not received any application for the passport. JFSA had interviews with the CIS operator of the first passport fund approved under the ARFP in January 2022, and had exchange of views about their status of its pilot fund in November 2022.

JFSA continues to engage actively in dialogues with the industry and raise interests in the ARFP.

New Zealand

In January 2022, the FMA registered a regulated CIS based in NZ as a passport fund, which is the first passport granted under the ARFP regime in the world.

Republic of Korea

Korea has not received applications yet, but continues to actively engage with the industry to identify potential areas of improvement.

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.

The SEC would consider translating the MoC and the relevant materials into Thai language in order to facilitate local CIS operators and distributors in participating in the ARFP.

Future Plans and Strategies

The JC's engagement with non-member economies and industry, as part of the ARFP review process and the bi-annual JC meetings, has shed light on a range of issues for the JC's consideration.

For example, the JC may consider the following priorities:

1. Enlargement of the ARFP
2. Communications with industry
3. Improvement of the ARFP website

1. Enlargement of the ARFP

The JC continues to engage with other economies potentially interested in ARFP membership and a number of observers attended the 12th JC meeting.

JFSA, as the Chair of JC, engaged in dialogues individually with Singapore, Malaysia, Chinese Taipei, and Hong Kong in November 2022.

They generally indicated that the tax issue among member jurisdictions hasn't been solved yet, and selecting distributors in host jurisdictions is also a hurdle. Some jurisdictions have concerns about the effect on domestic industries.

The JC will continue to discuss the ways to enlarge the member jurisdictions.

2. Communications with industry

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

On December 6, 2022, the JC held an Industry Day event in a hybrid format in Japan. Market participants and authorities from the jurisdictions participating in the JC also shared the trends and issues regarding the ARFP, as well as the market overviews and regulatory trends in each jurisdiction.

3. Improvement of the ARFP website

The JC believes that the ARFP website remains important as it is an official and reliable source of information and a first contact point for the industry and economies interested in the ARFP.

The JC will continue to update the website with new information (such as JC meetings) and generally improve the website wherever possible.