

ASIA REGION FUNDS PASSPORT (ARFP)

REGULATORY MEMO • Q1 2018

ABOUT THE ASIA REGION FUNDS PASSPORT

The Asia Region Funds Passport (ARFP) is an **initiative led by Asia-Pacific Economic Cooperation (APEC)** with the objective of attracting and keeping finance within the region to foster its economic growth, and strengthen the investment management industry.

Five countries (Australia, Japan, New Zealand, South Korea and Thailand) have signed a Memorandum of Understanding to participate in the ARFP. APEC is continuously promoting the ARFP scheme to other member countries for consideration. Potential new joiners could include India, Indonesia, the Philippines, Singapore and Vietnam.

The ARFP will allow units of funds authorised in a participating country (home jurisdiction) to be offered in other participating countries (host jurisdictions) upon approval as an ARFP fund and host jurisdiction authorisation.

The ARFP Joint Committee, a working group consisting of financial markets representatives from the participating regulators, proposes and enacts the ARFP rules and implementation. The ARFP emphasises investor protection by ensuring that participating countries must meet international IOSCO standards.

Key reference documents:

- Consultation on rules and operational arrangements (<http://fundspassport.apec.org/consultation-on-rules/>)
- Consultation on ARFP Guidance on host economy laws and regulations (<http://fundspassport.apec.org/consultation-on-arfp-guidance-2017/>)

Key requirements

The fund must

- Be constituted or established as a regulated Collective Investment Scheme (CIS) or a sub-fund of a regulated CIS in one of the participating ARFP jurisdictions
- Be distributed in its home jurisdiction
- Have a net asset value of at least USD 500mn
- Only invest in specific asset classes: transferable securities, money market instruments, deposits, depositary receipts over gold, derivatives, units of other funds. Further details are in the ARFP rules document

The fund's operator must have a minimum capital of USD 1mn, plus 0.1% of Assets under Management (AuM) above USD 500mn of AuM, up to USD 20mn.

The ARFP commits to a 21-day application review timeline for ARFP eligibility.

SCOPE

- Asset managers in participating countries that aim to raise capital from retail investors in the Asia-Pacific region using their locally domiciled funds

Currently, only certain investors in some countries can directly access a limited range of foreign funds. For instance, Australia (wholesale investors), Japan and South Korea allow the distribution of UCITS funds.

INDUSTRY IMPLICATIONS

Funds in most Asian economies are largely domestic strategy funds. The ARFP will be an excellent opportunity for asset managers to **distribute their unique strategies to new markets**.

Local asset managers will face increased competition from foreign asset managers, likely leading to a downward pressure on fees.

Retail investors will benefit from a wider range of fund investment products to choose from.

Challenges for asset managers

Currently, **host jurisdictions' rules** significantly differ in areas such as disclosure requirements. In addition, unequal tax treatments between local and foreign funds also hamper foreign fund attractiveness and comparability.

Asset managers also face challenges in managing an effective distribution model such as:

- Currency restrictions in South Korea and Thailand: onshore FX requirements, overall foreign investment quota, foreign currency transaction restrictions
- Fund operator responsibility for appointing suitable local representative, distributor and transfer agent in host jurisdiction(s)

They also have to choose the most suitable product for the target market(s), avoiding cannibalising sales of local distributor partners and offering competitive fees against local funds.

BNP Paribas Securities Services' view

- ▶ The ARFP Joint Committee is strongly committed to the success of the ARFP by actively engaging with the industry. We believe that the ARFP forms a good framework to promote cross-border fund distribution in the Asia-Pacific region. The ARFP will complement the existing cross-border distribution schemes in the region such as the UCITS and master-feeder fund structures.
- ▶ The ARFP Joint Committee launched a pilot programme in January 2018, inviting industry players to participate in testing the processes and treatment relating to launching an ARFP fund. We expect to see the first ARFP funds launched within the first half of 2018.
- ▶ Asset managers are likely to take a wait-and-see approach to the scheme. Distributing in a new market requires a long-term commercial strategy, to offset costs incurred by building distributor networks and meeting reporting requirements.

For additional information, please contact your local relationship manager

KEY DATES

- **SEPTEMBER 2013**
Signing of ARFP Statement of Intent
- **SEPTEMBER 2015**
Signing of ARFP Memorandum of Understanding
- **JUNE 2016**
Signing ARFP Memorandum of Cooperation
- **DECEMBER 2016**
Formation of Joint Committee
- **AUGUST 2017**
Third ARFP consultation paper released
Guidance for laws and regulations
- **JANUARY 2018**
ARFP pilot programme launched
- **EARLY 2018**
Local legislation finalisation
- **MID 2018**
First ARFP fund launched



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IN A CHANGING WORLD

We believe that changing regulations are a critical business issue for our clients and are shaping their priorities today. There is a huge cost in meeting new regulations, but perhaps a bigger one in getting it wrong. The pace of regulatory change calls for agility. Business models will need to be adapted and our insights help you address these issues.

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Created by our Public Affairs team in Europe and our local specialists in Asia-Pacific, each concise memo covers a specific regulation, including its scope, implications for the industry and the key dates in the regulatory process. As a Bank that is actively engaged with regulators and keenly follows developments, we also include our point of view on each regulation.

Recent updates include key regulations such as MiFID II, the Central Securities Depositories Regulation (CSDR), the Hong Kong Mutual Recognition of Funds initiatives with European countries, the China Interbank Bond Market and the Asia Region Funds Passport.

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NOTES

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