Third Meeting 2010
26 August 2010
Ballroom 1, InterContinental Hotel, Bangkok
Bangkok, Thailand

Meeting Paper 3-C
Asian Funds Passporting

State Street Global Advisors
Asian Funds Passporting

APEC Meeting of the Advisory Group on APEC Financial System Capacity-Building
Bangkok
August 2010
Overview

Background

An Opportunity For the Region?

PAIF as a Case Study

Way Forward
Background

Cross Border Recognition of Financial Products
  – A global trend
  – Impacting products listed on exchanges and unlisted products

Benefits
  – Lower product manufacture and investment costs for companies
  – Greater investment choice and potential returns for investors

Challenges
  – Interface with national regulatory regimes
  – Protecting consumers from enhanced risks
An example of successful passporting of unlisted funds – UCITS

- Undertakings for Collective Investment in Transferable Securities (UCITS)
- Collective investment funds that have been established in accordance with the EU UCITS Directive (adopted in 1985)
- UCITS includes Equity-Linked Funds, Balanced Funds, Bond Funds, Money Market Funds and Alternative Funds
- A UCITS fund can be marketed across the EU including to retail investors once registered
- UCITS are widely used by European households and are sold to investors outside the EU, including in the Middle East and Asia
- Products are developed, distributed and serviced

(Source http://ec.europa.eu/internal_market/investment/index_en.htm)
Is it Time to Develop an Asia Pacific Fund Vehicle?

• There is no mutually agreed vehicle in the region for unlisted funds and limited cross border recognition of unlisted fund products

• Regulators have felt more comfortable recognizing a European product like UCITS than products from other countries in the Asia Pacific region

• It is easier to offer a European product (UCITS) in the region than to offer a product from one Asia Pacific market to another

• An Asian funds vehicle and passporting regime might give regulators the comfort they need to increase cross border recognition of products from within the region

• Penetration of UCITS in some markets in the region shows passporting is possible but a lack of UCITS penetration in other markets suggests the need for another product
Offshore Funds Registered for Sale in Asia Pacific

Source: Global Fund Distribution 2008 by PwC.
An Opportunity for the Region?

Why Now?

- Capital markets in the Asia Pacific have developed significantly
- Cooperation between regulators in the region is increasing
- More than one market has significant and growing assets
- Could improve financial intermediation in the region
- Skills to sustain an unlisted fund industry exist in the region
- Regional markets could further develop liquidity, depth and skills
- EU and US investors are increasingly interested in investing in the region
- Could tap into predicted US$156 trillion in AUM globally in next 10yrs
- Local product could reduce overall product cost
- Could encourage cross border flows of funds within the region
- Interest in the idea is growing in the region
Asian Mutual Fund AUM Market Share by Country, June 2009

Source: The Cerulli Edge Asia Pacific Edition 4Q 2009

Legend:
- Taiwan
- Hong Kong
- Thailand
- Malaysia
- Singapore
- Indonesia
- Japan
- China
- Korea
- India
An Opportunity for the Region?

• Fund Related Jobs

  – Fund Management
  – Fund Accounting
  – Fund Administration
  – Transfer Agency/Shareholder Services
  – Custody
  – Trustee
  – Client Relationship/Business Development Management
  – Compliance
  – Legal Services
  – Tax
  – HR
  – Finance
  – Marketing
• PAIF is the ABF Pan Asian Bond Index Fund

  – Impetus came from 11 EMEAP central banks/monetary authorities
  – It is an exchange traded bond fund investing primarily in local currency government and quasi-government bonds in eight Asian markets: China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand
  – The fund is domiciled in Singapore and listed in Hong Kong and Japan and is therefore available in all three markets.
  – Perhaps the only regionally domiciled large fund offering that can be offered across a wide range of Asian jurisdictions
  – SSgA was selected as the manager of PAIF in 2005
• Lessons from PAIF

– Cross border recognition across several jurisdictions has been successfully done before and can therefore be done again
– Key is for regulators to commit to an idea and then cooperate to overcome regulatory and administrative barriers
– Cooperation is possible when governments are motivated to act together
– PAIF was established to develop the bond markets in Asian countries
– Passporting could develop the unlisted funds market in the region
– Can begin with only a few jurisdictions as early adopters
• **A role for APEC?**

  – Adopt funds passporting as an initiative under the Finance Ministers’ Process
    • Investigate the feasibility of the initiative by examining
      * Products to be sold under the regime
      * Key regulations that should apply
      * Passporting mechanisms
      * Creation of separate regulations versus use of existing regulations
      * A link between a regional vehicle and UCITS
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