

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 31-057 Draft: FIRST Source: Australian Treasury Date: 27 October 2011 Meeting: Honolulu, Hawaii, USA
--

Fourth Meeting 2011
8 November 2011
Honolulu Suites, Sheraton Waikiki Hotel
Honolulu, Hawai'i, USA

Meeting Paper 7-B Asian Region Funds Passport

Australian Treasury

- PURPOSE** For information.
- ISSUE** Asian Region Funds Passport initiative under the APEC Finance Ministers' Process
- BACKGROUND** The Advisory Group and ABAC proposed a regional funds passport scheme in 2010. The APEC Finance Ministers supported this proposal and work has been initiated with Australia as a lead economy. The ARFP would provide a multilaterally agreed framework allowing the cross border marketing of funds across participating economies in the Asia region. In the longer term a commonly agreed funds management regulatory framework could also facilitate funds from the Asian region being marketed in Europe by way of an Asian/ European mutual recognition agreement.
- In order to determine whether there was sufficient interest in the concept of an ARFP within the Asia region, Australia introduced its development as an exploratory policy initiative within the APEC Finance Ministers' Process (FMP). This provided a region-wide working platform to collaborate with finance policy makers, regulators, industry players and technical experts with the aim of examining how an ARFP could be made to work and deliver the intended benefits to the region.
- PROPOSAL** N.A.
- DECISION POINT** Note the paper.



An initiative of the APEC Finance Ministers' Process

Asia Region Funds Passport Public Information

(Current as of September 2011)

- The Australian Financial Centre Forum was established in September 2008 to report on the policy settings needed to develop Australia as a leading regional financial centre. The Forum's report (known as the Johnson Report) was released in January 2010 and the Government's response was incorporated in the 2010 Budget announcements.
- The Johnson Report recommended that Australia explore the concept of developing an Asia Region Funds Passport (ARFP). The ARFP would provide a multilaterally agreed framework allowing the cross border marketing of funds across participating economies in the Asia region.
 - In the longer term a commonly agreed funds management regulatory framework could also facilitate funds from the Asian region being marketed in Europe by way of an Asian/ European mutual recognition agreement.
- In order to determine whether there was sufficient interest in the concept of an ARFP within the Asia region, Australia introduced its development as an exploratory policy initiative within the APEC Finance Ministers' Process (FMP). This provided a region-wide working platform to collaborate with finance policy makers, regulators, industry players and technical experts with the aim of examining how an ARFP could be made to work and deliver the intended benefits to the region.
- The Australian Treasury in collaboration with the Australian Securities and Investment Commission (ASIC) is the lead agency responsible for facilitating the development of the ARFP within the FMP. The Australian Department of Foreign Affairs and Trade is also assisting in this process, given the whole-of-government interest in the ARFP.
- An APEC policy dialogue was held on 27 October 2010 in Kuala Lumpur to engage with relevant stakeholders and targeted APEC economies in the idea of an ARFP. During this dialogue, participants considered current perspectives on developing an ARFP in the region; examined the features of a funds passport scheme; identified the various policy and technical challenges; and looked at the options to further progress the concept.
 - The APEC economies that are seen as likely to gain immediate benefits from participating in the ARFP, and have therefore been targeted include Australia, Singapore, Hong Kong, Japan, Korea and Chinese Taipei. With the exception of Korea and Chinese Taipei, all these economies attended the Kuala Lumpur dialogue.
- A capacity building workshop aimed at supporting several APEC developing economies improve their technical skills in cross-border trading of financial products was also held in conjunction with the dialogue. The capacity building work represents an important element of this initiative and is designed to assist the developing economies enhance their potential to join an ARFP in the future.

- The APEC developing economies that participated in the both the policy dialogue and capacity building program included Thailand, the Philippines and Vietnam. Due to conflicting priorities, Indonesia was unable to participate but has indicated strong interest in the activity.
- Malaysia, through the Securities Industry Development Corporation (SIDC), the training arm of the Securities Commission took a lead role in designing and delivering the capacity building workshop in partnership with Australia.
- At the conclusion of the Kuala Lumpur dialogue, it was agreed that the concept of an ARFP would be introduced at the APEC Finance Ministers Meeting (FMM) in Kyoto, Japan on 6 November.
 - Mark Johnson spoke of this concept during the APEC Business Advisory Council (ABAC) working lunch with finance ministers, highlighting ARFMP as an important avenue to strengthen financial market integration in the region.
- In recognising the ARFP exploratory activities, APEC Finance Ministers welcomed the efforts by a number of economies to further develop this area of work.
 - Support for this activity was expressed in generic terms (to facilitate greater cross-border flow of funds) in both the Joint Ministerial Statement and the Report on Growth Strategy and Finance that were released at the conclusion of the FMM.
- Building on the outcomes of the first APEC policy dialogue on ARFP that was held in Kuala Lumpur in October 2010, the Australian Treasury held a follow-up policy and technical workshop in this area, which took place in Hong Kong on 15-16 March 2011. The workshop:
 - considered the key structural, policy and administrative areas underpinning the design, development and operation of an ARFP; and
 - served as a forum to consult with members of the Asia funds management industry and seek their views on the proposed ARFP.
- The discussions at the Hong Kong workshop was constructive and helped develop deeper and wider understanding of the technical issues and policy challenges surrounding the proposed establishment of the ARFP.
- In conjunction with the policy and technical workshop, Australia (Treasury) through its partnership with Malaysia (SIDC) also delivered a second capacity building program for the developing economies of APEC.
- The conclusions and key outcomes of the Hong Kong policy and technical discussions were considered by workshop participants through wider consultations with stakeholders in the respective economies and jurisdictions. Work on several action items, including the further development of specific technical options that resulted from the workshop discussions were progressed between April and July 2011.
 - Progress on the development of the ARFP was reported at APEC Senior Finance Officials' Meeting in Washington DC on 21 June 2011.
- The third ARFP policy and technical workshop was held in Singapore on 2-3 August 2011 and was attended by thirteen APEC member economies (Australia, Singapore, Hong Kong,

Japan, Korea, Thailand, Malaysia, Indonesia, Vietnam, the Philippines, the United States, Chinese Taipei and New Zealand).

- The primary objective of the workshop was to consider the full range of technical issues and options that would need to be addressed prior to establishing an ARFP. The workshop discussions were guided by a number of options papers prepared by Australia, which covered four key areas, namely: the scope and jurisdictional staging of the passport; issues concerning mutual recognition and regulatory equivalence; the design and operation of passporting fund; and issues covering the protection of investors.
- Additionally, Australia prepared and presented a draft survey instrument that will seek to map the state of regulatory equivalence among the various jurisdictions in the region. The exercise will aim to identify a number of regulatory gaps which will need to be addressed by economies interested in being party to a funds passporting arrangement.
- The workshop also presented an opportunity to have a dialogue with several ASEAN member economies and to explore how their *Mutual Recognition and Harmonisation Framework* (which is geared to promote cross-border trading of financial products) and the APEC ARFP initiative could potentially complement one another.
- Further capacity building training was delivered in conjunction with the workshop in Singapore. This work focused on addressing some of the technical and policy developmental gaps that were identified from the previous training activities.
 - Finance regulators from Thailand, Indonesia, the Philippines and Vietnam participated in this training which was facilitated by SIDC Malaysia in partnership with the Australian Treasury.
- Moving forward, it is likely that economies will meet again in mid-to-late October 2011 in Kuala Lumpur (date and location subject to confirmation) to finalise the proposal that will be taken to the APEC Finance Ministers.
- Subject to the technical issues and policy challenges surrounding the design, development and operation of an ARFP being effectively addressed, the targeted economies are expected to recommend to APEC Finance Ministers' in November 2011 that a pilot ARFP be developed in 2012 in the form of a pathfinder approach.
- Two of the overarching themes during the US APEC host year are "strengthening regional economic integration and expanding trade" and "advancing regulatory convergence and cooperation". The ARFP is in step with this direction. It will support greater financial market integration in the region; enhance cross-border trading of financial products; and facilitate this development in a way that ensures that the financial regulatory framework underpinning the ARFP is sound and is being established in close cooperation with the participating financial regulatory authorities.

For further information, contact the following officers:

Leslie Williams
Director
RSE Section, APEC Branch
Department of Foreign Affairs and Trade
Ph: +612-62619694
Email: leslie.williams@dfat.gov.au

Lorraine Lenthall
Senior Adviser
Retail Investor Division
The Treasury
Ph: +612-62633874
Email: Lorraine.lenthall@treasury.gov.au