



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 30-028  
Draft: **FIRST**  
Source: State Street Global Advisors  
Date: 10 August 2010  
Meeting: Bangkok, Thailand

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

## **Meeting Paper 3-C** **Asian Funds Passporting**

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# Asian Funds Passporting

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



## Overview

Background

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An Opportunity For the Region?

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PAIF as a Case Study

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Way Forward

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## **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

# Background

- **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

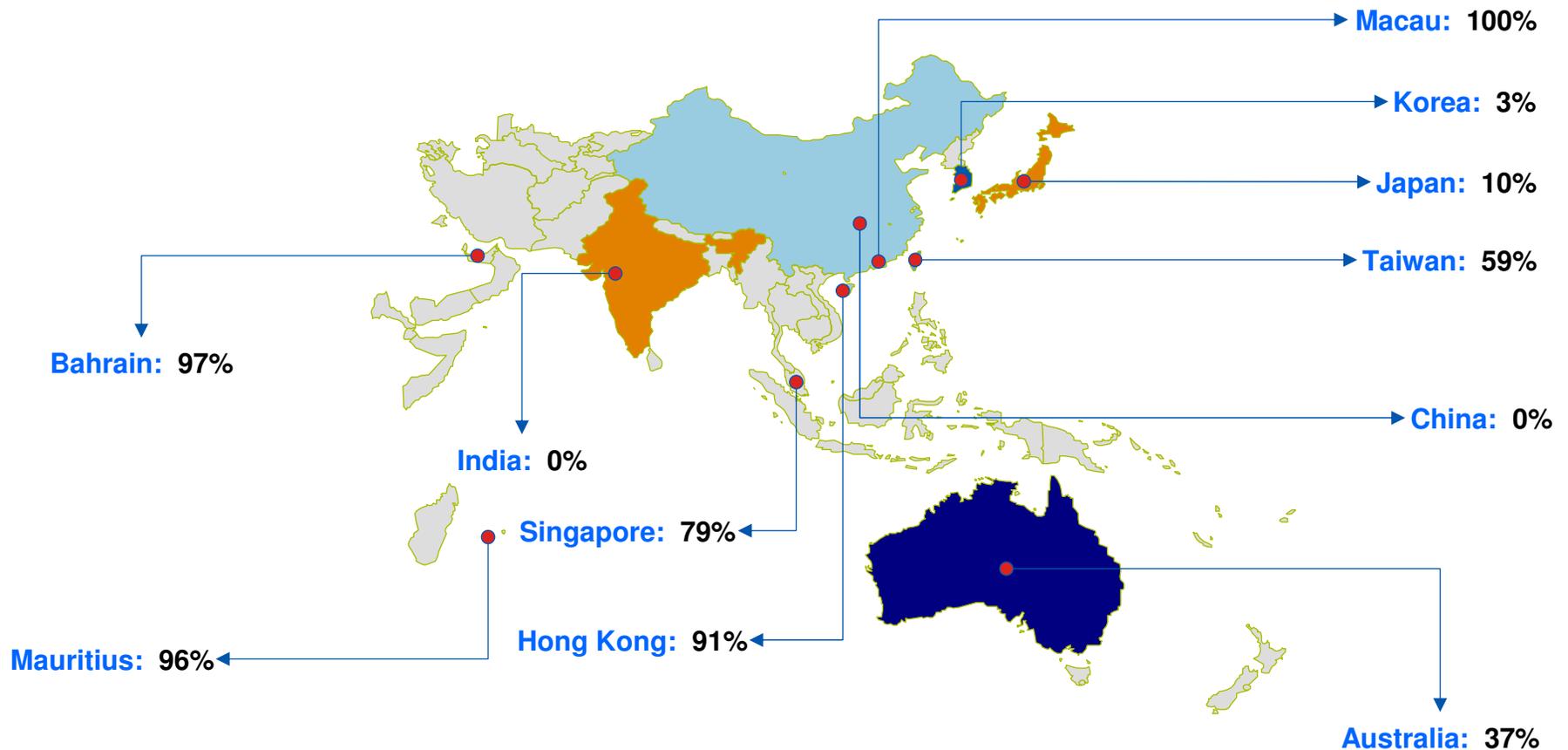
(Source [http://ec.europa.eu/internal\\_market/investment/index\\_en.htm](http://ec.europa.eu/internal_market/investment/index_en.htm))

## An Opportunity for the Region?

### 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



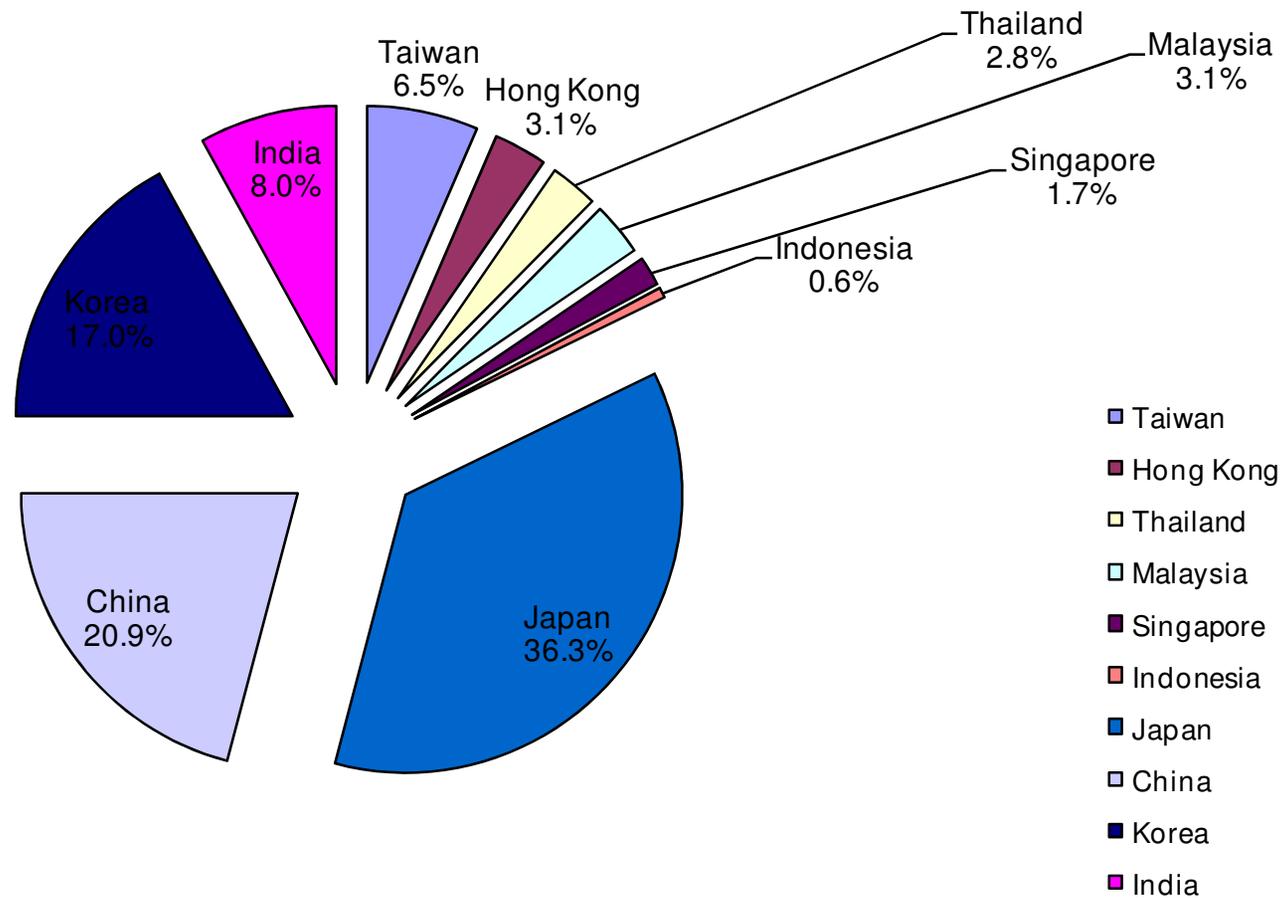
Source: Global Fund Distribution 2008 by PwC.

# 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



# 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

# Way Forward

- **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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