

Asian Region Funds Passport (ARFP): A key to harmonized market for Asian Mutual Funds distribution

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The Asian Region Funds Passport (ARFP) program is being developed through an agreement between Australia, Japan, Republic of Korea, New Zealand, and Thailand. The initiative is meant to establish a regional market for Collective Investment Schemes (CIS) by facilitating cross-border offerings across the participating countries.

The CIS, launched under the passporting scheme (ARFP), will allow approved investment schemes that are domiciled in one country (e.g. Australia) to be distributed in another participating country (e.g. Japan), and vice versa.

What is Passporting?

It is a provision that allows a firm registered in one country to do business in any other country without any further authorization. This is valuable to multi-national companies because it eliminates a lot of red tape associated with gaining authorization from each individual country, a process that can be lengthy and costly for a business.

The Asia Region Funds Passport (ARFP) is the ambitious passport scheme within Asia Pacific that covers the most number of markets which have similar framework like the UCITS of European markets (Harmonized Regulatory Regime).

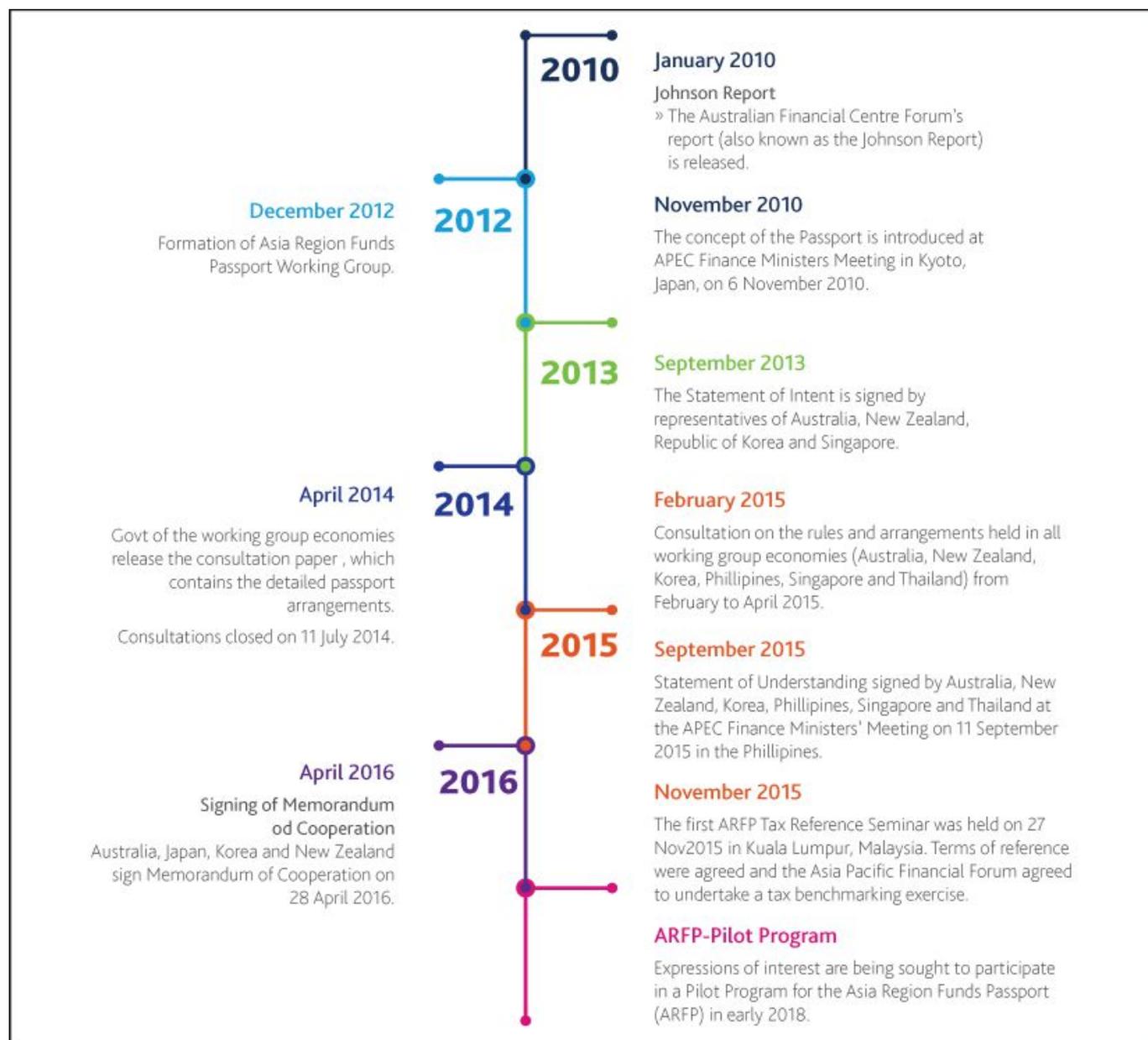
The aim of ARFP:

- To reduce regulatory duplication by establishing a standardized set of requirements for fund operators
 - To benefit investors through broader and more diverse fund offerings while maintaining investor protection.
 - To provide consultation or guidance on host economy laws and regulations that will apply to passported funds.
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Asia Region Funds Passport Milestones

The ARFP has been introduced to aid financial integration in the Asia-Pacific region. It is considered as a vital initiative that help regional financial markets to achieve economies of scale and depth in the market with greater liquidity, while also providing better support to the region's economic development goals.

A brief on ARFP milestones as follows:



Benefits and Defiance

Global asset managers are looking to take advantage of the region's fast-growing fund market and ARFP provides a sizable opportunity. Here is an overview on the Benefits and Defiance for global investment managers under ARFP.

- **Benefits:**

- An investor can purchase a fund domiciled in another country in his own financial

market, thus saving costs

- Investors can be more confident while investing in Passport Funds. The funds include those offered by overseas asset managers for diversifying their portfolios
- Asset managers should benefit from growth in both AUM and revenues by exploring their funds overseas. The domestic fund distributors should be able to increase their common revenue by distributing overseas passport funds from other countries

- **Defiance:**

- In Asia, the ASEAN collective Investment scheme (CIS) between Malaysia, Singapore and Thailand, and the Mutual Recognition of Funds (MRP) between Hong Kong and mainland China pose challenges to ARFP
- All participant countries having different languages can be a bigger challenge as it will create operational difficulties. Presently, the participants have opted the common language as English for the pilot, but some countries may not be comfortable communicating in English
- Each country has different type of investment habits that create hurdles for asset managers to gain access to and attract investments in local financial markets. At times, it is dominated by few major banks that rarely distribute funds which are not affiliated with them
- Differences in tax laws and equitable tax treatment among participant countries can be challenging when it comes to implementing the ARFP framework

Conclusion:

The ARFP scheme faces various limitations to achieve its objectives. However, ARFP is driven by prominent financial markets like Australia and Japan, which are hosts to various leading Asian asset management hubs. That gives the confidence to believe that ARFP funds will spread beyond Asia, recreating the success of UCITS.

Sources:

<https://www.investopedia.com/>

<http://fundspassport.apec.org/>

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