



**Asia-Pacific
Economic Cooperation**

Statement of Intent
on the establishment of the
Asia Region Funds Passport

Statement of Intent

The signatories to this Statement of Intent (the 'Statement'):

- i) Recognising the value of creating better connections between financial markets in the Asia region (the 'region');
- ii) Sharing a number of common objectives, including to:
 - a) provide investors with a more diverse range of investment opportunities, enabling them to better manage their portfolio and meet their investment objectives;
 - b) deepen the region's capital markets to attract finance for growth in the region;
 - c) facilitate the recycling of the region's savings locally, growing the pool of funds available for investment in the region;
 - d) strengthen the capacity, expertise and international competitiveness of financial markets in the region and the fund management industry, with a view to supporting sound economic development; and
 - e) maintain legal and regulatory frameworks which promote investor protection, fair, efficient and transparent markets for financial services, support financial stability and provide high standards in the management and distribution of collective investment schemes ('CIS');
- iii) Acknowledging the identified benefits of increased cross-border offering of CIS; and
- iv) Desiring to consult on arrangements to establish a multilateral arrangement to allow cross border offering of CIS across the region;

Have reached the following understandings:

General understandings

1. The signatories have been working together in good faith to develop the guiding principles and basic arrangements for the Asia Region Funds Passport, with a view to potentially become members of the Passport upon its establishment (including by first becoming members of a Pilot Group).
2. The Passport would facilitate the ability of eligible CIS in Passport member economies to be offered in other Passport member economies in accordance with the Passport arrangements.
3. The signatories endorse the Framework Document in Appendix B which sets out the initial guiding principles and basic arrangements for the Passport. Terms used or referred to in the Statement shall, unless otherwise defined, have the same meanings as defined in the Framework Document.
4. The signatories recognise the potential benefits of being a Passport member economy and the benefits that would flow to the region. As such, the signatories propose to consult publicly within their economies on the detailed rules which would be necessary to implement the principles and basic arrangements set out in the Framework Document.
5. The signatories will jointly issue a consultation document, translated as necessary into one or more of the official languages of each signatory.
6. In undertaking the consultations referred to above, the signatories will be guided by the timeline in Appendix A.
7. The signatories will endeavour to reduce the potential impact of their broader policy settings (including taxation arrangements and capital account controls) to the cross-border offering of CIS under the Passport where such changes are appropriate taking account of a signatory's broader policy objectives.
8. Following the consultations and any consequent refinement to the Passport rules, signatories who are able and decide to become members of the Pilot Group will proceed to establish and implement the Passport based on the timeline in Appendix A.
9. It is envisaged that the arrangements for the Passport developed through this process will be those that apply in its initial phase. The signatories acknowledge and expect the Passport arrangements to develop over time as they are refined and built upon to reflect changing norms and market conditions.
10. It is the objective of the signatories that the Passport will, over time, become a more inclusive regional scheme. To this end, the signatories will work with other economies in the region, particularly those who have been involved to date, to take account of their views in the

development of the detailed rules and to facilitate their readiness to participate in the Passport in future.

11. The Statement sets out the signatories' intent to consult on arrangements to establish the Passport. It is not intended to create legally binding obligations or supersede any domestic law or international obligations.

Signed at Nusa Dua, Bali, Indonesia on 20 September 2013.

By:

For Australia

For Korea

.....
The Hon Joe Hockey MP
Treasurer

.....
Mr Oh-Seok Hyun
Deputy Prime Minister and Minister of
Strategy and Finance

For New Zealand

For Singapore

.....
Honourable Dr Jonathan Coleman
Associate Minister of Finance

.....
Mr Tharman Shanmugaratnam
Deputy Prime Minister and Minister for
Finance

Appendix A – Timeline for implementation

Date	Milestone
September 2013	APEC Finance Ministers note the progress that has been made to develop the Passport, including the formation and ongoing development of a framework document that sets out the guiding principles and basic arrangements for the Passport.
September 2013	Interested Finance Ministers express their intention to consult on detailed rules based on the Framework Document by signing the Statement of Intent.
September - December 2013	Technical and procedural rules and other elements of the Passport prepared for consultation.
January - June 2014	Public consultations conducted.
June - December 2014	Technical and procedural rules refined to take account of public consultations and prepared for finalisation through an arrangement document.
February 2015	Economies who wish to become members of the Passport when it is launched (the Pilot Group) sign the arrangement document.
February 2015 - December 2015	Pilot Group economies implement legislation and measures where necessary to give effect to the arrangement document.
January 2016	Eligible CIS in passport member economies can access the Passport.

Appendix B – Asia Region Funds Passport Framework Document



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Economic Cooperation**

Asia Region Funds Passport Framework Document

An initiative of the APEC Finance Ministers' Process

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Introduction

- (i) Economies in the Asia region (the 'region') recognise the value of creating better connections between their financial markets.
- (ii) Working together to reduce the barriers to cross-border financial transactions, created by differences between economies' laws and regulations, economies in the region can further the development of deeper and more efficient financial markets which, in turn, can contribute to sustainable and sound economic growth.
- (iii) To this end, economies in the Asia region have been working to develop a multilateral arrangement that aims to be, in the longer term, based on mutual recognition to the fullest extent possible to facilitate cross border offers of collective investment schemes ('CIS') based in the region — an Asia Region Funds Passport.
- (iv) The cross-border offers of CIS made possible by the Passport is expected to bring with it a number of identified economic benefits, including:
 - a. providing investors with a more diverse range of investment opportunities, enabling them to better manage their portfolio and meet their investment objectives;
 - b. deepening the region's capital markets to attract finance for growth in the region;
 - c. facilitating the recycling of the region's savings locally, growing the pool of funds available for investment in the region; and
 - d. strengthening the capacity, expertise and international competitiveness of financial markets in the region and the fund management industry, supporting sound economic development.
- (v) Observing the growing popularity of CIS originating in other regions offered under well-regulated cross-border CIS trading regimes, the objective is to develop the Passport as a similarly well-regarded regulatory arrangement based in the Asia region, with the aim of strengthening the capacity and competitiveness of the funds management industry in the region.
- (vi) Economies also recognise the importance of promoting investor protection and fair, efficient and transparent financial markets for financial services, supporting financial stability and providing high standards in the management and distribution of CIS. The Passport arrangements will be developed in keeping with these objectives.
- (vii) To the greatest extent possible, Passport member economies will rely on and trust the integrity of each other's regulatory frameworks, to facilitate the cross-border offers of CIS relying on the Passport.
 - a. The Passport will be first launched in the Pilot Group. It is the aspiration that the arrangements will be refined over time and expanded to become a wider, more inclusive regional Passport.

- b. For this reason, economies which are, at this stage, unlikely to be members of the Pilot Group have remained involved in and made important contributions to the development of the arrangements. It is intended that these economies will continue to be consulted on the further development of the Passport, in anticipation of their future participation.
- (viii) This Framework Document sets out the Principles that will underpin the development and implementation of the Passport. The Passport arrangements will change over time as they are reviewed and refined to reflect the maturity of the scheme. As such, it is intended that this Framework Document will be a living document that is updated through consensus by Passport member economies.
- (ix) This Framework Document will be interpreted in a manner that is not inconsistent with the obligations of WTO Members.

The Passport

1. The Passport will be an arrangement for the cross-border offers of eligible CIS in Passport member economies. It is the objective of the Passport that a CIS operator who operates an eligible CIS in a Passport member economy will, subject to the rules specified in this Framework Document and other related arrangements, be able to offer interests in that CIS to investors in other Passport member economies.
2. The Passport aims to facilitate the growth and competitiveness of financial markets in the region and the fund management industry, creating a common framework that has the effect of reducing the regulatory inconsistency and overlap faced by CIS operators seeking to offer CIS in multiple economies.
3. This Framework Document will guide but not limit the design and implementation of the detailed Passport arrangements.

Scope

4. To ensure the integrity and efficiency of the Passport arrangements, they will be designed to enable retail offers of CIS (whether traded on a financial market or not):
 - 4.1 that are well diversified in terms of the exposure of the fund to issuers of financial products, are liquid and do not have complex features that may increase risk; and
 - 4.2 that have interests which are redeemable on request except in specified circumstances.
5. To ensure the benefits of the Passport accrue to Passport member economies, the Passport will be limited to CIS authorised and constituted in Passport member economies.
 - 5.1 This means that to be eligible to offer a CIS under the Passport, the CIS must be constituted and authorised, approved, registered or licensed in a Passport member economy and have met the regulatory requirements to offer the interests in the CIS to the public. The operator of the CIS must be authorised, approved, registered, or licensed and have its principal place of business in that Passport member economy.
6. Measures will be developed to ensure that CIS operators based primarily in non-member economies cannot use the Passport to avoid the regulatory requirements of a Passport member economy that would otherwise apply to it and its activities.

Applicable rules

7. Passport member economies will, to the fullest extent possible, recognise and respect the integrity of each other's regulation of CIS.
8. Initially the economies have recognised the need for a stepped approach in which the home economy's laws and regulations apply generally, and recognise that there are some areas in which the host economy's laws and regulations apply and other

areas in which Passport special rules will apply. This is to recognise the diversity of Passport member economies' regulatory frameworks and to ensure the integrity of the Passport.

9. Over time, it is envisaged that the Passport arrangements can be reviewed and adjusted to further reduce the varied requirements faced by CIS operators offering CIS using the Passport.

Host economy laws and regulations

10. In general, host economy laws and regulations will apply where they relate to the direct interaction between the investor and the Passport fund. For example, the host economy laws and regulations will apply in the following areas (as well as other areas to be mutually determined by Passport member economies):
 - 10.1 the distribution of Passport funds to investors;
 - 10.2 the disclosures that Passport funds are required to provide investors;
 - 10.3 the manner in which complaints by investors are dealt with; and
 - 10.4 other marketing or communications directed at investors.
11. A host economy may impose rules on Passport funds, in addition to the host economy rules that apply to local CIS where the rules are not unduly burdensome for the Passport fund in comparison to local CIS, having regard to whether the additional rules are reasonable to promote confident retail investment in Passport funds.

Home economy laws and regulations

12. In general, the home economy laws and regulations will apply to the authorisation of the CIS operator, and the authorisation and operation of the CIS. The special rules, where they go beyond the home economy laws and regulations, will also apply. For example, home economy laws and regulations will apply in the following areas (as well as other areas to be mutually determined by Passport member economies):
 - 12.1 the authorisation, registration, approval or licensing of the CIS operator;
 - 12.2 the authorisation, registration, approval or licensing of the CIS and its operation other than when this is to be subject to the rules of the host economy;
 - 12.3 general duties of the CIS operator and its directors and officers, including, for example, managing conflicts of interest;
 - 12.4 outsourcing and service providers;
 - 12.5 risk-management requirements; and
 - 12.6 meetings of Passport fund members.
13. The host economy laws and regulations do not apply in these areas except so far as it relates to matters that are to continue to be covered by host economy laws and regulations.

Special Passport rules

14. Special Passport rules will apply in the following areas, (as well as other areas to be mutually determined by Passport member economies), to achieve the following aims:
 - 14.1 *Streamlined Authorisation Process* — to provide for a practical and efficient streamlined process for Passport funds to be offered in a host economy, incorporating any host economy requirement that the CIS be authorised, registered, approved or licensed in the host economy. Streamlining could include, for example, standardised application forms and a commitment by host economy regulators to process an application within condensed timeframes. The host regulator will take into account the process of authorisation in the home economy. The longer-term aim is to move to a notification process in the host economy.
 - 14.2 *Types of vehicles* — to provide that there are no restrictions on the type of legal vehicle a CIS uses as long as it is constituted and authorised, registered, approved or licensed as a CIS that is able to be offered to the public in a Passport member economy.
 - 14.3 *Advanced qualifications and experience* — to ensure that CIS operators of Passport funds have capacity and a strong record of experience managing CIS in their home economy.
 - 14.4 *Regulatory control* — to ensure Passport regulators are able to appropriately oversee Passport funds offered in their economy, for example by having measures to require the CIS operator to maintain a certain level or kind of investments in the home economy.
 - 14.5 *Delegation* — to ensure that a significant proportion of Passport fund activities are undertaken by entities within the region, consistent with the aims of the Passport to develop the region's fund management industry.
 - 14.6 *Custody of assets* — to ensure there is separation between the assets of the CIS and the assets of the CIS operator and other CIS, except permitted use of omnibus accounts.
 - 14.7 *Valuation* — to ensure CIS assets are valued on an appropriate basis.
 - 14.8 *Independent oversight* — to ensure that the CIS is subject to independent oversight.
 - 14.9 *Investment and portfolio allocation restrictions* — to ensure only CIS using a restricted range of issuer diversified and liquid investments can be offered under the Passport.
 - 14.10 *Derivatives* — to limit the use of derivatives.
 - 14.11 *Lending* — to prohibit money lending, underwriting and the provision of guarantees by Passport funds, except in limited circumstances.
 - 14.12 *Borrowing* — to provide that Passport funds may only borrow or obtain finance in limited circumstances and limited amounts.

- 14.13 *Short-selling* — to prohibit short selling by Passport funds.
- 14.14 *Redemption and suspension* — to ensure each Passport fund provides reasonable redemption rights and to specify when redemptions may be suspended.
- 14.15 *Distribution of audited accounts* — to ensure audited accounts are prepared in accordance with international standards or prevailing national standards that are substantially converged with international standards and made publicly available.
- 14.16 *Regulatory powers* — to provide that the regulatory powers of the host regulator in the host economy apply to a Passport fund.

The Pilot Group

- 15. The Passport will first be established with a limited number of Passport member economies which will form the Pilot Group, who meet the criteria set out below and who mutually decide to implement the Passport in accordance with the principles outlined in this Framework Document.
- 16. Other economies may subsequently become Passport member economies. The criteria for new Passport member economies are the same as for the Pilot Group. The date the membership of new Passport member economies takes effect will be mutually decided by all Passport member economies, taking into account the time the new member needs to implement the Passport arrangements in their economy.
- 17. The purpose of commencing with a Pilot Group is to launch the operation of the Passport initially with a limited number of economies to establish a strong and efficient framework that can then be expanded to create a wider, more inclusive regional Passport.
- 18. An initial review of the Passport arrangements will occur two years following the date it becomes operational (that is, the date that CIS offered in Passport member economies can first rely on the Passport), unless Passport member economies mutually decide to undertake the review earlier.

Eligibility to become a Passport member economy

- 19. The economy who wishes to become a Passport member economy must meet the following criteria. The economy:
 - 19.1 is signatory to Appendix A of the International Organization of Securities Commissions ('IOSCO') Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information;
 - 19.2 has been previously assessed by the International Monetary Fund and/or World Bank as part of a Financial Sector Assessment Program as having broadly

implemented the relevant IOSCO Principles on enforcement, cooperation and collective investment schemes¹ or if not:

- (1) the rating was based on a matter/s not relevant to the matters under the Passport; or
- (2) the Passport member economy has implemented the recommendations of the assessment to the satisfaction of all other Passport member economies; or
- (3) other arrangements (including for example, the Passport special rules or agreed actions by the relevant economy) are in place which satisfy all other Passport member economies; and

- 19.3 is not listed on the Financial Action Task Force's list of high-risk and non-cooperative jurisdictions.
20. An economy who wishes to become a Passport member economy must obtain the consent of each existing Passport member economy. In the initial stage, references to existing Passport member economies should be read as referring to the economies who also intend to become a Passport member economy.
21. In considering the nomination, existing Passport member economies will have regard to whether the regulatory framework of the nominating economy is considered to be sufficiently equivalent in terms of the regulatory or other outcomes it achieves.
22. Passport member economies will make a decision within a reasonable time. If the nomination is declined, the economy will be provided with recommendations to assist it to become a Passport member economy at a later stage. Passport member economies will not unreasonably withhold their consent to a nominating economy becoming a Passport member economy.
23. An economy continues to be a Passport member economy unless that economy ceases to enjoy the ongoing trust and confidence of other Passport member economies or the economy withdraws from the Passport.

Supervisory and enforcement cooperation

24. The operation of the Passport will require heightened cooperation, consultation, exchange of information and mutual assistance between the Passport economy regulators. The Passport economy regulators can determine principles and procedures for cooperation between themselves on supervision, investigation and enforcement matters.

¹ The relevant principles are: Principles 10 to 15 and 24 to 27 covering Principles for the Enforcement of Securities Regulation, Principles for Cooperation in Regulation and Principles for Collective Investment Schemes (except those that specifically relate to hedge funds).

25. These principles and procedures will include measures to implement the following principles:
 - 25.1 Passport economy regulators have oversight over the activities of Passport funds constituted and authorised, registered, approved or licensed in their economy, regardless of whether those activities are undertaken in their economy or another Passport member economy.
 - 25.2 The home regulator will have primary responsibility for monitoring and enforcement of the areas of regulation in which the home economy laws and regulations apply and the areas of regulation in which Passport special rules apply. The host regulator will have primary responsibility for monitoring and enforcement of the areas of regulation in which the host economy laws and regulations apply. Nevertheless, all the regulatory powers that home and host regulators have in relation to CIS authorised, approved, registered or licensed in their economy that are not Passport funds will still apply to Passport funds.
 - 25.3 In monitoring, supervising, and, where necessary, taking enforcement action against Passport funds, Passport economy regulators will treat all investors equally, regardless of whether investors are in their economy or another Passport member economy.

Governance

26. A Joint Committee, with representatives from all Passport member economies, will oversee the operation of the Passport. The Joint Committee will have three primary functions:
 - 26.1 to monitor the Passport and its operations, including ensuring the consistent application of the rules and resolving differences in interpretation;
 - 26.2 to recommend any amendments deemed necessary, including to this Framework Document and any arrangements made under it; and
 - 26.3 to assess nominations from economies who wish to become Passport member economies.
27. Each member of the Joint Committee will seek the approvals required in their home economy to give effect to the Committee's recommendations in a timely manner. Decisions to amend Passport arrangements, including rules and governance, require the consensus of all Passport member economies. Passport member economies will have regard to the views of other economies in the region who wish to become Passport member economies at a later date.
28. Passport member economies will cooperate to resolve any differences in a mutually satisfactory manner.

Implementation

29. This Framework Document sets out, at a high level, the basic principles guiding the implementation of the Passport. It is intended that this Framework Document be implemented by:
 - 29.1 an arrangement document which details the rules referred to in this Framework Document and the governance arrangements which apply to the Passport; and
 - 29.2 any other arrangements deemed necessary by Passport member economies from time to time.
30. Detailed rules developed to give effect to this Framework Document will be the subject of public consultation in 2014 to address the concerns of stakeholders in economies in the Asia region, particularly those economies intending to be members of the Pilot Group. The rules will then be refined and reflected in the detailed arrangement to be mutually accepted by Passport member economies.
31. Upon becoming members of the Passport or the Pilot Group (whichever is the earlier in time), the detailed arrangements will be transposed into the laws and regulations of those economies. Some Passport member economies may need to pass legislation to achieve this.

Glossary

'CIS operator' — means a person who operates a Passport fund under an authorisation, a registration, an approval or a licence of the home regulator being the regulator that has authorised the Passport fund, and such a person includes both the trustee and manager, if applicable;

'eligible CIS' — a collective investment scheme that is eligible to be offered as a Passport fund under the Passport rules;

'home economy' — in relation to a Passport fund means the jurisdiction in which the Passport fund is constituted or established, and authorised, registered, approved or licensed under the laws and regulation of that jurisdiction for offer to the public in that jurisdiction;

'home regulator' — is the Passport economy regulator in the home economy;

'host economy' — in relation to a Passport fund means a jurisdiction (other than the home economy) in which the Passport fund is offered or to be offered to the public in that jurisdiction;

'host regulator' — is the Passport economy regulator in the host economy;

'laws and regulations' — the provisions of the laws of a Passport member economy, the regulations promulgated thereunder, and other regulatory requirements that fall within the competence of the Passport economy regulators;

'local CIS' — a collective investment scheme constituted and authorised, registered, approved or licensed in a Passport member economy that is not a Passport fund;

'Passport' — the Asia Region Funds Passport;

'Passport arrangements' — arrangements governing cross-border offers of CIS under the Passport;

'Passport economy regulator' — a regulator nominated by each Passport member economy as being responsible for the authorisation, registration, approval or license and supervision of local CIS and Passport funds;

'Passport fund' — a regulated CIS that is registered as a Passport fund by a Passport economy regulator in accordance with the rules establishing the Passport;

'Passport member economies' — economies in the Asia region who have mutually decided to implement and participate in the Passport;

'Passport rules' — means the rules applying to Passport funds under this Framework Document.

'Pilot Group' — member economies where the Passport is first launched;

'regulated CIS' — a collective investment scheme that is constituted and authorised, registered, approved or licensed in a Passport member economy, and the operator of which is licensed and has a principal place of business in that economy.