

## Inside View: Putting the Jigsaw Puzzle Together

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By **Qiumei Yang**

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The Asia Pacific region is becoming increasingly influential in, and intertwined with, markets in Europe and the Americas.

One of the most-anticipated developments that will spur further growth is the cross-border fund structure between Hong Kong and China.

Authorities there are close to announcing details of a mutual recognition protocol through which funds in one jurisdiction could be recognised for sale in the other.

Properly executed, such a scheme would create significant opportunities for distribution of funds to and from China.

Equally significant are two other efforts to form Asia Pacific fund passports—arrangements to align regulatory requirements to allow more efficient cross-border distribution of funds.

### **Opportunities**

Singapore, Malaysia and Thailand are creating a system that will enable funds to distribute their products across market borders, with the ultimate goal of establishing an integrated capital market in the region of the Association of Southeast Asian Nations.

Meanwhile, Australia, South Korea, Singapore, and New Zealand are creating a pilot programme, known as the Asia Region Funds Passport, which will offer funds registered in one country the ability to distribute in the others.

The details of all of the proposals are still unknown, but a number of basic principles should be considered.

These include: mutual respect of the characteristics of each individual market; providing investors with access to a wide choice of investment options; enabling recognised funds to be able to delegate management of their investment portfolios, if delegation provides the greatest benefit to investors; offering flexibility that eases cross-border fund sales, marketing and servicing; streamlining fund approval and registration procedures; and harmonising operational and tax and account recordkeeping procedures.

Developments of such schemes promise to generate a new level of activity in many Asia Pacific capital markets.

This further opening of its fund market is yet one more indicator of the growth and dynamism of the regions capital markets.

The regulated funds sector is one of many affected by—and, in turn, helping to propel—the region's growth.

## **Global Players**

Successful Asia Pacific asset managers that previously operated only in the region are now looking to establish a more global business—seeking to trade in London, for example, or launching UCITS funds for distribution elsewhere in the world.

They are engaging in dialogue with already established global players to better understand and address the business issues they will face—and possibly are starting global partnerships.

In addition to those global partnerships, Asia Pacific fund managers are finding it equally or more important to understand global regulatory efforts, as well as national regulations with transnational effects.

These developments mean that regulatory decisions outside the Asia Pacific region matter more than ever, and regulators in the region are increasingly asserting their views.

One such example is that managers in the Asia Pacific region are increasingly concerned over the US Foreign Account Tax Compliance Act and third-country issues that are part of the European Union's Alternative Investment Fund Managers Directive and Markets in Financial Instruments Directive.

Funds throughout the world must comply with those regulations, or at least determine whether they are exempt.

Meanwhile, asset managers in Europe and the US are closely following Asia Pacific policy initiatives, such as trading and market structure rules recently issued by Hong Kong and Australian regulators.

*Qiumei Yang is the executive vice president and head of Asia Pacific for ICI Global.*

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