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# Fund passport garners interest

The Asean Collective Investment Scheme framework was launched in August to enable cross-border collective investments. Most fund managers have responded positively to this scheme.

BY THO LI MING

The Asean Capital Markets Forum (ACMF) announced in October last year that it had signed a memorandum of understanding with the Securities Commission Malaysia (SC), Monetary Authority of Singapore (MAS) and Securities and Exchange Commission Thailand (SEC) to set up a common framework that would allow cross-border collective investments between the three signatory countries.

The Asean Collective Investment Scheme (CIS) framework creates a streamlined authorisation process that allows funds that have been authorised in its home jurisdiction to be sold in another host member's jurisdiction. A handbook has been distributed to member countries since Aug 25, making the framework fully operational.

Since then, there has been interest from fund operators in the three countries, says an ACMF spokesman. "The three signatory jurisdictions have seen interest from both local and overseas fund managers who are looking to tap the framework. They are monitoring developments and will refine the framework, if necessary."

Many industry players have responded positively to the fund passport. Maybank Asset Management Singapore, a subsidiary of Maybank Asset Management Group Bhd, have two funds approved under the framework. The funds — the Maybank Asian Equity Fund and the Maybank Asian Income Fund — were the first to qualify under the framework in Singapore.

Currently, regulators are only allowing plain vanilla products to be "passported". These are funds that invest in traditional assets, such as equities and bonds, and have simple mandates and structures.

"For now, we are launching these two funds with traditional underlying assets, which is in line with our core capabilities, and also after taking into consideration investors' familiarity with Asian products," says Nor' Azamin Salleh, CEO of Maybank Asset Management Group. The funds will be distributed in Malaysia and Thailand once they receive approval from the authorities in the two countries.

On Oct 29, Singapore-based Nikko Asset Management Asia Ltd (a shareholder in Affin Hwang Asset Management Bhd) announced that it had received approval to market its Singapore Dividend Equity Fund in Malaysia. The company was the first asset manager to obtain MAS' approval to distribute its fund in Malaysia as a qualifying CIS under the framework. As at press time, the company is awaiting the approval of the Malaysian authorities.

Chan Ai Mei, chief marketing officer at Affin Hwang Asset Management, says there are plans to passport some of its funds to Singapore early next year. "We are making the necessary preparations with a local representative in Singapore ... It will be mixed asset income-based funds investing in the region."

Other companies that are looking to jump on the bandwagon include RHB Asset Management Sdn Bhd and Pacific Mutual Fund Bhd. Eliza Ong, managing director and regional head of group asset management at RHB Asset Management, says the company plans to introduce funds to other member countries and vice versa.

"We are planning to introduce some Islamic and conventional flagship funds and regional funds. We are [also] planning to bring the funds over to Singapore via our own initiative. For Thailand, we will work on identifying partners to work with," she adds.

Gary Gan, executive director and CEO of Pacific Mutual Fund Bhd, says it is performing feasibility studies at the moment and working with several established distributors in Singapore to assess interest in its flagship funds there.

"Initially, we are focusing on our shariah and conventional Malaysian equity funds. Our parent company is among the largest asset management companies in Southeast Asia, hence there may also be opportunities to 'import' suitable qualified solutions to Malaysia.

"We have introduced several unit trust funds since 2006. These are externally managed by our parent company [in Singapore], covering Greater China and Asia-Pacific related mandates."

While only three countries are currently involved in the fund passport, others are expected to join the framework in the future.

## FUND PASSPORT BENEFICIAL TO LOCAL PLAYERS

The Asean CIS framework is one of the initiatives of the ACMF to promote harmonisation of standards and to facilitate more cross-border offerings. Prior to this, it was more difficult for fund management companies as they had to use a feeder fund structure to invest in other funds. The framework will benefit investors from the lower fund cost structure as operators only need to register their existing funds with the authorities in member countries.

Danny Wong, CEO of Areca Capital Sdn Bhd, says the framework is a game-changer and will benefit local investors. "Instead of setting up operations here, foreign firms can work with local players to provide funds to our investors. It will be beneficial for both parties. We understand the local industry here, so they will leverage the local expertise available here."

Maybank's Nor' Azamin is optimistic that the investing community will benefit from the breadth of funds that can be offered here and abroad. "Local investors will benefit from a wider range of investment products. Being a leading Islamic financial centre, Malaysia could be in an excellent position to export these products in the future."

Pacific Mutual's Gan notes that the leading local funds have shown strong results over the last decade even when compared with many of the other global indices. "There are local fund managers who manage offshore portfolios in-house, and this platform could throw us into the mix, with a lot to gain."

As an Islamic finance hub, Malaysia's strength lies in its shariah-compliant funds. The country has the largest CIS industry by value. As at end-September, statistics available on the SC's website showed that the total assets under management (AUM) for the fund management industry totalled RM633.31 billion (including unit trust funds, funds by corporate and charitable bodies, the Employees Provident Fund and private pension funds).

Of this amount, Islamic funds made up RM109.21 billion. Besides attracting Muslim investors, these funds act as a proxy for investors interested in funds that focus on ethical companies or those that have strong corporate social responsibility.

## TEETHING PROBLEMS STILL NEED TO BE IRONED OUT

But not everything has been smooth sailing thus far. This is understandable, some market observers say, as the CIS is still new and anything to do with cross-border transactions can be complicated.

For starters, some players view the language barrier and relatively small market in Thailand as a challenge. For instance, over there, the offer documents can be in English, but the key fact sheet must be in Thai. In Malaysia and Singapore, English is acceptable.

Singapore is perceived to be the largest beneficiary of the CIS framework because of its regulations, which are of international standard. It is also a base for many global funds.

Pacific Mutual's Gan says that while Singapore has many global funds, it is possible that many of them may not qualify, owing to the specific requirements for a fund to be qualified for export.

"As for Thailand, while language and awareness is a barrier, it is a market that has been largely untapped by many Malaysian fund managers. It is an opportunity to go into a relatively smaller market with a huge retail investor base."

The CIS operator is also required to have at least US$500 million (RM1.67 billion) of AUM if it wants to offer its funds in other countries. The minimum sum of US$500 million is to ensure the companies have enough scale to sustain their business, as well as have the ability to do research, distribute and further develop their business when promoting their funds overseas.

The move, however, is seen as only benefiting the larger players in the industry, while discriminating against the smaller companies. Areca Capital's Wong feels that a fund management company should not be judged by its size.

"The company should be judged based on whether it is capable, that is, by experience and track record on compliance and operational matters. We focus on

> We are making the necessary preparations with a local representative in Singapore for mixed asset income-based funds that invest in the region, says **Chan**

> Malaysian investors will benefit from a wider range of investment products.
> › ***Nor' Azamin***

## OTHER FUND PASSPORTS

Aside from the Asean Capital Markets Forum, Malaysia and Hong Kong have also signed a mutual recognition agreement to cooperate further with regards to Islamic finance, particularly in the area of fund management. Since then, two fund houses have released funds via this collaboration.

In May, Public Bank (Hong Kong) Ltd announced it would distribute the Public Ittikal Fund, which invests mostly in Islamic equities and sukuk in Malaysia and overseas. Meanwhile, Maybank Asset Management Group Bhd announced last month that it planned to jointly develop products with Bosera International. They plan to launch their first fund in the first quarter of 2015.

small and mid-cap investments, so our funds tend to be small. It's our philosophy that our equity fund should not grow too big as it will only confine itself to large-cap investments. We can [diversify into] alternative investments, but the market may not be big [enough] at the moment," he says.

RHB's Ong says it makes sense as larger companies will have the resources to support cross-border activity and to ensure proper compliance and strong marketing support as well as have a strong investment team.

"This is necessary to give distributors and end-investors the confidence in the framework at the start. Once the framework runs successfully, over time, perhaps it will also make sense to consider niche fund houses which do not meet the AUM requirement but can satisfy other requirements set by the various regulators."

In fact, Pacific Mutual's Gan says this is not a large amount. "For example, in the Malaysian fund industry, the Big Six [players] dominate 85% of the private unit trust industry. But by using the US$500 million AUM as a measure (which includes discretionary mandates), it is conceivable that only the top 15 players may qualify under this framework."

However, this qualification does not apply to local players that work with foreign companies to bring in their funds. Wong says this means boutique companies, such as Areca Capital, can work with partners to bring in their funds.

"In that case, we can play a role as an importer and distributor. The foreign players can leverage the players here," he adds.

Currently, there is no cross-border enforcement authority, such as the European Securities and Markets Authority, which looks after the rights of and protects its member countries and investors in the European Union. If investors are unsatisfied with the local distributors, they will have to complain to the local regulator.

However, if it is an issue with the fund manager, they will need to take it up with the regulators in both jurisdictions. In Malaysia, investor disputes are handled by the Securities Industry Dispute Resolution Centre (SIDREC).

For investor complaints or recourse in the event of misrepresentation, the ACMF spokesman says the current laws, regulations and arrangements in each signatory jurisdiction will apply.

"Investors may complain to the relevant market participants or regulatory agencies. Signatory jurisdictions will cooperate and provide assistance to one another to ensure that investor protection issues are taken into consideration."

Maybank's Nor' Azamin says it is double protection. "The rights of investors are definitely protected by local regulators. Overseas fund managers looking to distribute or market their funds locally are required to appoint a local licensed fund management company to act as a local representative. Investors can turn to them for queries or complaints alike."

Affin Hwang's Chan says there are two aspects one needs to look at when it comes to investor protection for investments in foreign funds sold in Malaysia. "First, if an investor's right is jeopardised in respect to the management of foreign funds, he may direct his complaint to the local representative of the foreign fund manager in Malaysia. The local representative would then direct the complaint to the foreign fund manager who will be responsible for responding to the investor.

If the foreign fund manager fails to address the complaint, Chan says the Malaysian investor may send it to the SC, which will then direct it to MAS. "However, if the complaint is in relation to misrepresentation or mis-selling of products, the complaint should be directed to the SC, which is responsible for regulating fund distributors in Malaysia."

Compared with other fund passports in the region, the Asean CIS seems to be limited in its scope, with only three member countries at the moment. In comparison, five countries have signed on for the Asia-Pacific Economic Cooperation Asia Region Funds Passport (ARFP). In 2013, South Korea, Australia, New Zealand, the Philippines and Singapore signed a statement of intent to endorse this passport, and targeted 2016 for implementation.

Some fund managers agree the scope is limited, but maintain that the three member countries of the Asean passport make for a good start. "The CIS framework is indeed limited in scope, nevertheless it is a good start putting Malaysian asset managers on the region's platform. Our regulator is closely observing the ARFP, which we believe Malaysia will be part of at a later date," says Chan.

At the end of the day, there are benefits to having fewer countries, such as easier implementation and fewer complications. RHB's Ong agrees. "The benefit of having a framework with very limited scope is easier implementation as fewer countries are involved. Hence, as long as the regulators, fund houses and distributors involved in the Asean CIS framework have a will to make it work, the successful implementation will be possible with regular communication, feedback, supportive rules and regulations."

All these issues are seen as teething problems for any new framework. For many of the players, it is too early to comment on the challenges as they are either preparing to submit documentation or are in the midst of doing so.

Ong says it is too early to comment on these issues. "We are excited to be given this opportunity to explore cross-border product offerings and will gauge the actual results over the next 12 to 24 months to see how effective the Asean CIS framework is."

Areca's Wong concurs, saying that ultimately, the more important objective would be to create cooperation among the members so that eventually, the networks will be borderless. "Certain countries will benefit more than the others. But at the end of the day, it is how attractive you make yourself to others. So, it depends on the locals and their authorities."

Pacific Mutual's Gan is optimistic that things will get better with time and more countries will be added to the list. "For many local fund managers, it is an opportunity, if desired, to diversify business regionally and to promote local expertise outwards, especially since the Asean wealth pool is growing by leaps and bounds. We should try to be successful within Asean before thinking about the rest of Asia or the world. Hence, having an opportunity via a well-defined framework that is consistent among the member countries is a great initiative compared with past practices." E

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# REQUIREMENTS FOR FUND COMPANIES

*The Handbook for CIS Operators of Asean CISs* aims to provide fund managers with guidance on various administrative and procedural matters with regards to the Asean CIS framework. It sets out the investment limits and the process for registering funds in each jurisdiction. The framework is also governed by the Standards of Qualifying CIS guidelines, a set of standards that all member countries must adhere to.

"It is designed to ensure that participating fund managers have the necessary experience and track record (including assets under management), and that the funds offered under the framework are properly regulated," says a spokesman for the Asean Capital Markets Forum.

Under the standards, the CIS that qualifies for the framework has to be domiciled and managed in countries within the framework. This effectively excludes foreign-based funds, notably those classified as Undertakings For The Collective Investment Of Transferable Securities (Ucits).

Ucits funds are popular in Asia, especially in countries like Singapore where its government has signed memoranda of understanding to allow these funds to be sold directly to retail investors. Funds that are also not allowed under the framework are those defined as "capital protected" and real estate investment trusts.

CIS operators will have to fulfil a set of qualifications when it comes to experience and sufficient capital. For instance, the company intending to offer CIS must have at least five years' experience in managing funds and its CEO, 10 years' experience.

Boards of directors (executive and non-executive) are required to have at least five years' experience, and key executive officers must have either a bachelor's degree and three years' experience in the capital markets or five years' experience in the capital markets. Fund managers are also required to have a minimum of three years' experience if they have an undergraduate degree or five years if they don't.

The company must maintain shareholders' equity of at least US$1 million (RM3.34 million). On a group level, the company must have at least US$500 million in assets under management.

According to the framework, the qualifying CIS must be certified as such by the home regulator. If the host regulator recognises one of its funds as having met the qualifying CIS standards, it will issue a letter to the fund operator. With that letter, the operator can go to another signatory jurisdiction. Here, the application process is shortened and the other jurisdiction will just look at the disclosure standards, which must meet the host's requirements.