

ARFP and KSD

May 2018

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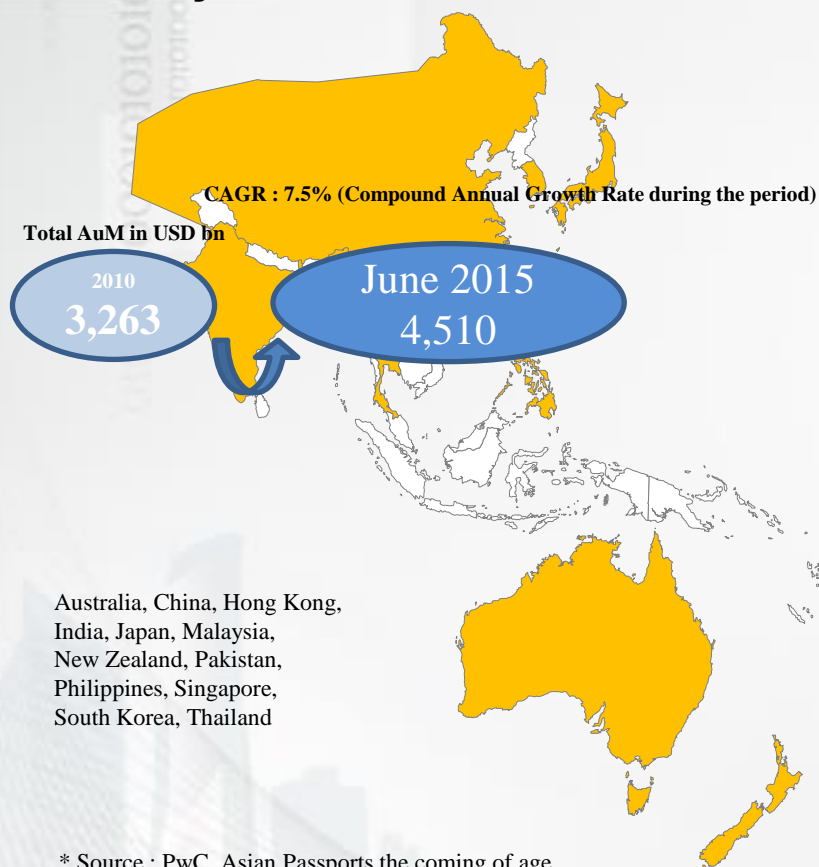
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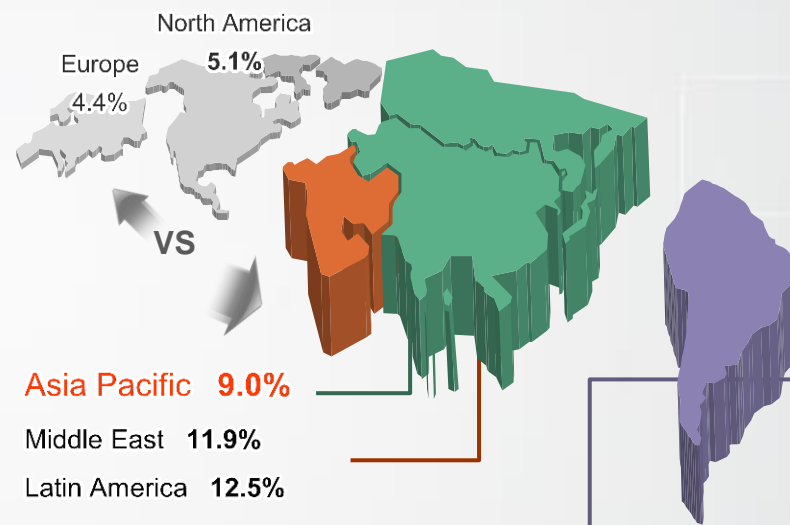
Growth of Asia mutual funds AuM

For years



* Source : PwC, Asian Passports the coming of age

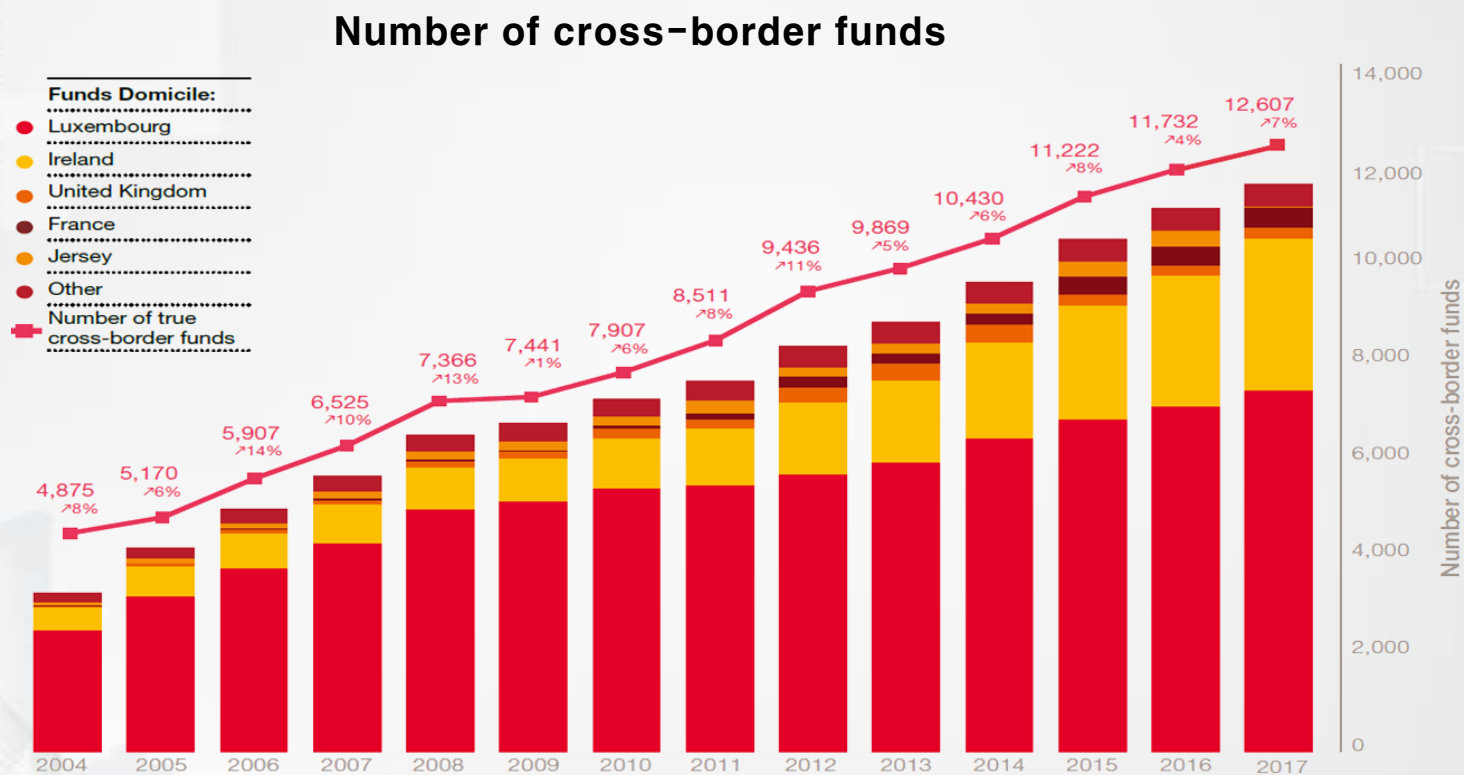
By 2020



* Source : PwC, Lipper LIM

Growth of cross-border funds

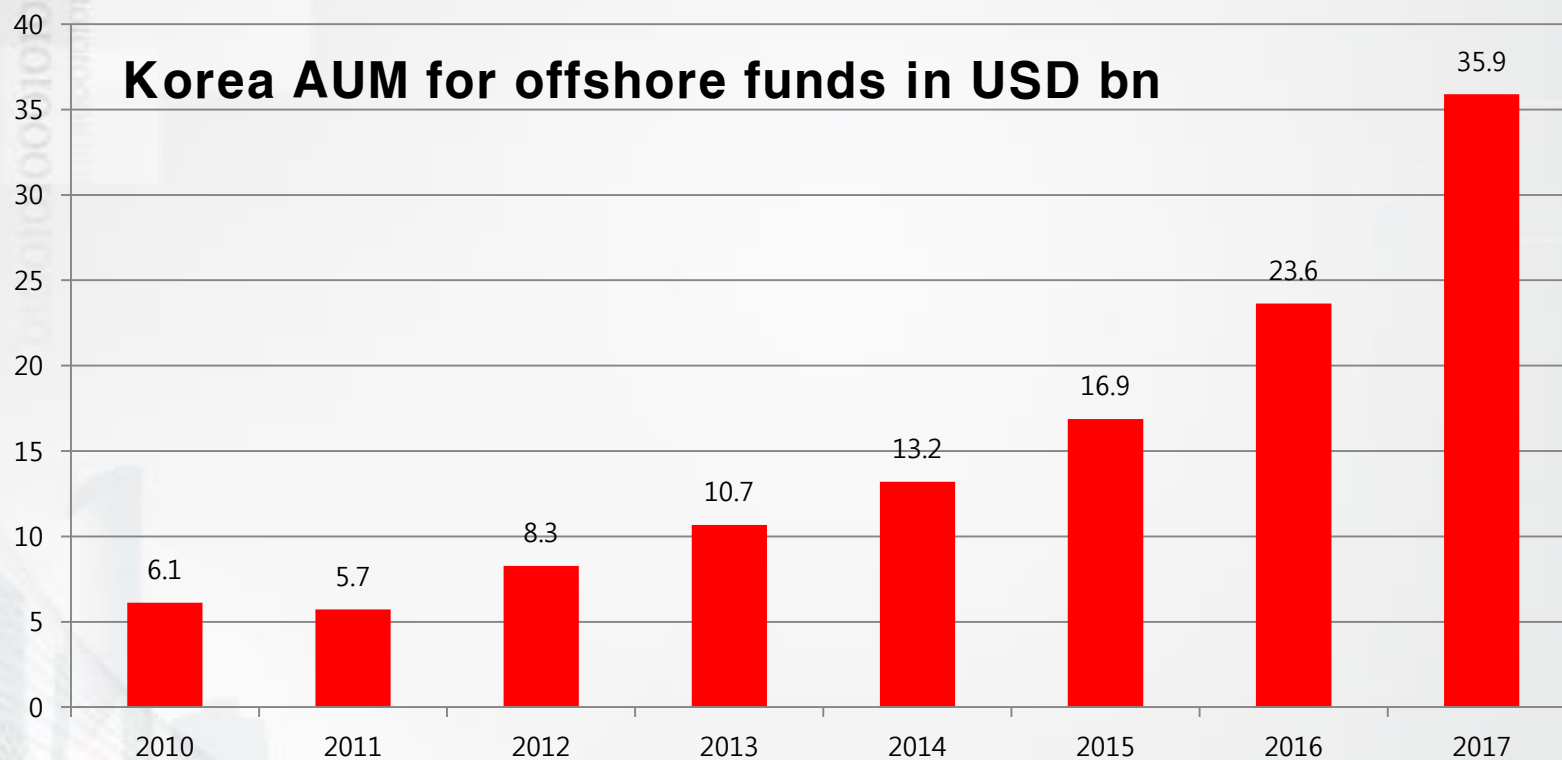
- From 2004 to 2017, for 14 years, cross-border funds have increased by 7,732 (+158.6%)



* Source : PwC, Lipper LIM, 2017 Dec

Growth of Korea offshore fund investment

- Korean investment for offshore funds have been increasing also.



* Source : freesis.kofia.or.kr (KOFIA)

Initiatives for Integration

- As cross-border fund flows are on the rise, Asia fund markets need to be integrated like UCITS.

	Signatories	AuM of PMF*	Launch Date
ASEAN CIS	Monetary Authority of Singapore (MAS) Securities Commission of Malaysia (SC Malaysia) Securities and Exchange Commission, Thailand (SEC Thailand)	USD 1,407B	August 2014
China-HK MRF	China Securities Regulatory Commission (CSRC) Securities and Futures Commission of Hong Kong	USD 304.4B	July 2015

* Public Mutual Fund AuM as at December 2016

** Source: Cerulli Associates, Reserve Bank of New Zealand, Ignites Asia

Biography of ARFP

- In step with CIS and MRF, some Asia-Pacific countries agreed to launch their fund market integration.

Sep.
2013

Signing of the Sol(Statement of Intent) : Australia, Korea, New Zealand, Singapore.

Sep.
2015

Signing of the statement of understanding on the establishment of the ARFP at the APEC Finance Ministers' Meeting.

*Six economies signed: Australia, Japan, Korea, New Zealand, the Philippines and Thailand.

Apr.
2016

Signing of the MoC(Memorandum of Cooperation) : Australia, Japan, Korea, New Zealand, and Thailand.

Jun.
2016

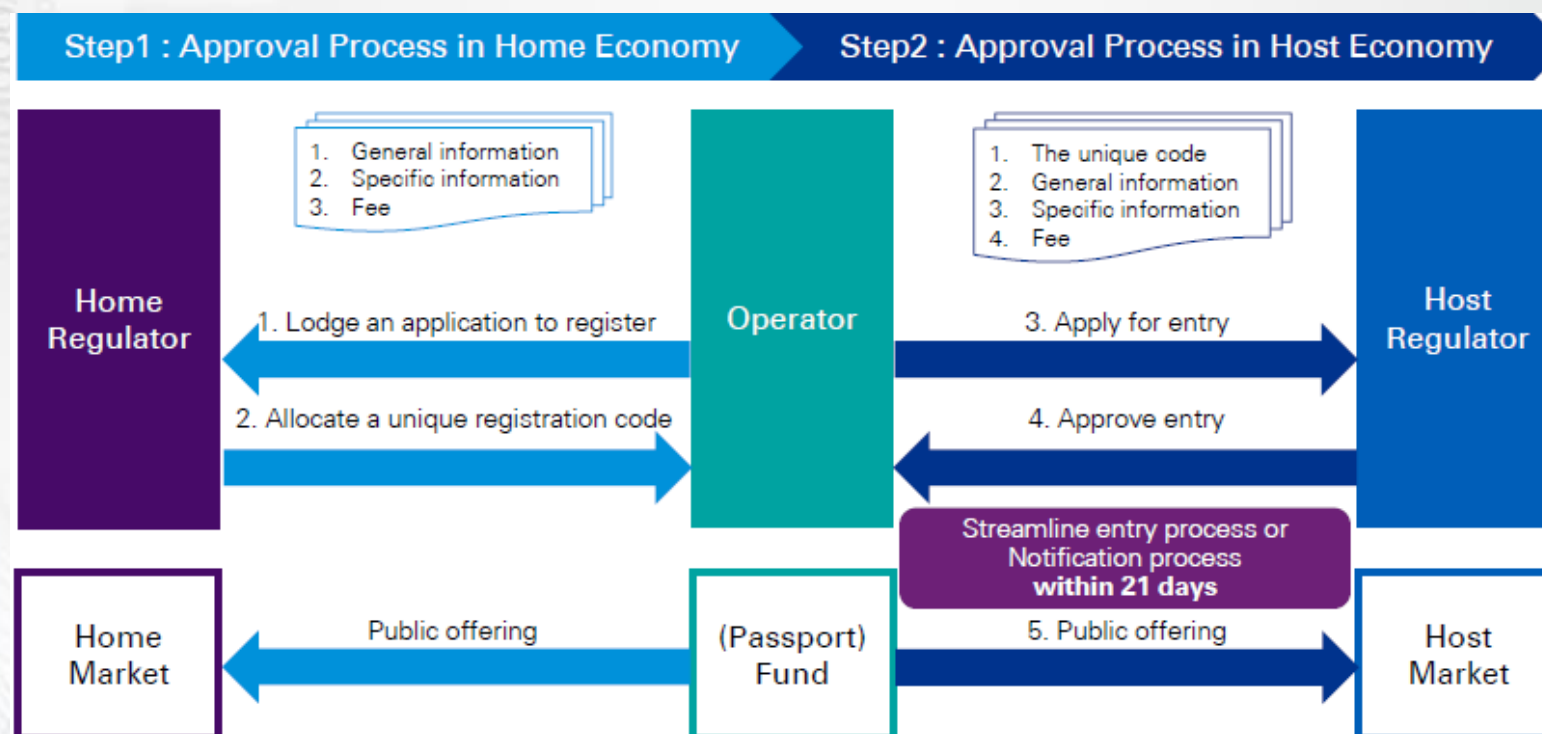
- The MoC of ARFP comes into effect on June 30, 2016
- Australia, Japan, Korea, New Zealand and Thailand : 5 participants signed
- ARFP will come into effect from the beginning of 2018 with each Participant's legislations (Activation will occur after any two participants complete the implementation)

2016
2017

The ARFP Joint Committee's face-to-face meeting in Kuala Lumpur, Malaysia in November 2016 and in Tokyo, Japan in April 2017.

Basic concept of ARFP

- The ARFP is an international initiative that facilitates the cross-border offering of eligible collective investment schemes while ensuring investor protection in economies participating in the ARFP
- Enables a fund registered in its home economy to be “passport” into host economy just through streamlined assessment



Oversight structure

- The ARFP funds comply with home economy financial services laws and uniform ARFP rules, but sales areas, like tax and disclosure, are regulated by host economy regulations.



Benefits

More choice, lower fees for investors

- Invest in hitherto unavailable funds
- Less buying cost

Market growth for asset manager

- Asset managers benefit from growth of AuM
- Easier entry to overseas markets

Efficiency increase for regulator

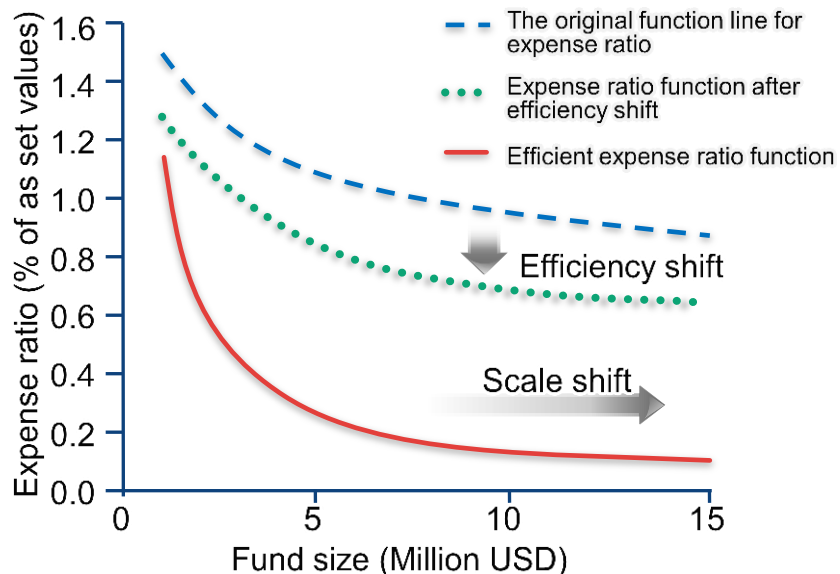
- More efficient oversight for cross-border funds
- Coordinated oversight for consumer protection and financial stability

Benefits

► Expense Ratio vs. Fund Size

| With ARFP, fund size enlargement is expected to give member countries a higher efficiency of fund expense ratio

- Expected cost reduction by ARFP
 - Australia : USD 1,667mn, Korea : USD 483mn
 - Thailand : USD 57mn

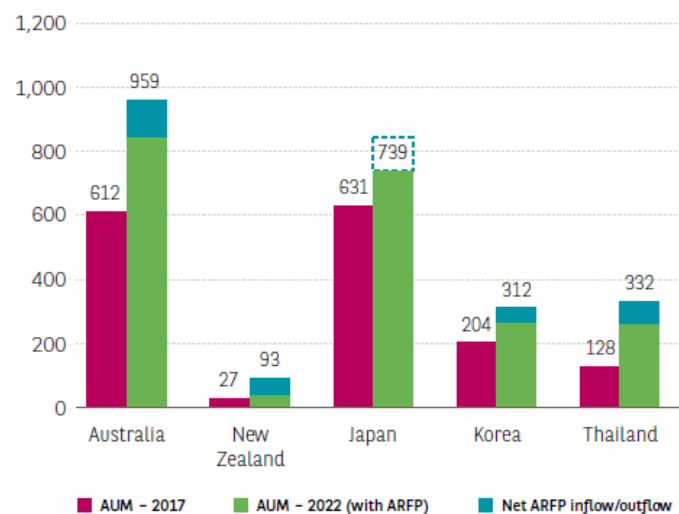


* APEC Policy Support Unit, July 2014

► AuM boost across the region

| Combined retail AUM across the five markets has the potential to grow an additional US\$190bn by 2022

- Expected net flow
 - Japan : totalling USD 105 bn net outflow
 - Australia : totalling USD 117 bn net inflow
 - Others : net inflow by increase of AuM



* Source : BNP Paribas, 2106.11

Challenges

Language barriers

- All docs, including prospectus, written in English

Tax treatment

- Significant differences in investor's tax outcome
- Withholding tax, ARFP vs local funds, etc

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Activation process for ARFP

- Phased launch : MOC arrangement, Each legislation, and Activation
- Each participants' legal support is important

MOC Arrangement

- Several JC meetings sign MOC

Legislation

- Consistent with MOC by the end of 2018
- Set Laws, Regulations, codes, enforceable instruments, and other requirements

Effective

- Any 2 Participants ready
- Any Home ready to assess with legislation
- Any Host ready to be a subsequent Participant

Meaning of MOC (Memorandum of Cooperation)

MOC is ARFP RULE

- ARFP means the arrangements established by MOC
- ARFP FUND must meet MOC requirements

Not obligations, but Effective

- MOC does NOT create legally binding rights, obligations, or commitments, but all Participants must incorporate the MOC into their domestic law.

Structure of MOC

Structure	Contents
MOC on the ARFP	▸ Purpose, Interpretation, Definitions, Arrangements (General rules), etc
Annex 1 Host Economy Laws & Regulations	▸ Disclosure and reporting, Distributor qualification, etc
Annex 2 Common Regulatory Arrangements	▸ Process & requirements for Registration/Deregistration, Streamlined Entry, Action by regulators, etc
Annex 3 Passport Rules	▸ Qualification of Operator&Distributor, Operator duty, audit requirements, Operational goods, Portfolio allocation, Exposure limits, etc
Annex 4 Cross-Border Supervisory Cooperation	▸ Regulators' cooperation and information exchange, confidentiality, etc

Main contents of MOC**Passport
Fund**

- Regulated CIS(Collective Investment Scheme) only public offered
- Registered as a passport fund in a participating economy

Operator

- 5 year experience for recent 7 years
- Min equity 1 million
- USD 500 million AuM for fund manager

**Fund
requirements**

- Registered as a passport fund in a participating economy
- Mandatory custodian, Independent oversight entity

**Permitted
Investment**

- Currency, Deposits, and Depository receipts over gold
- Transferable securities : stock, debt, CIS
- Money market Instruments : not more than 397 maturity
- Derivatives, SLB of the above kinds

**Investment
Restriction**

- Only liquid assets, mandatory diversification, no leverage, restrictions on using derivatives

others

- Assets in accordance with home economy laws
- Ongoing reporting to both economies
- Reporting breach and change

Ref) Relating laws in participants

country	Main law
Australia	▸ Corporations Act 2001
Japan	▸ Investment Trusts and Investment Corporations Act of Japan
Korea	▸ Financial Investment Business and Capital Markets Act of Korea
New Zealand	▸ Financial Markets Conduct Act 2013 of New Zealand
Thailand	▸ Securities and Exchange Act of Thailand

Progress of legislation

country	Main law
Australia	<ul style="list-style-type: none"> ▸ Released draft regulatory guidance ▸ Introduced Passport legislation to Parliament
Japan	<ul style="list-style-type: none"> ▸ Implemented domestic regulation, Cabinet Ordinance of Financial Instruments Exchange Act ▸ Finalizing Japan's Application A to export the passport
Korea	<ul style="list-style-type: none"> ▸ Conducted a public hearing on the draft ▸ Expecting law pass by National Assembly in 2018
New Zealand	<ul style="list-style-type: none"> ▸ Draft regulations are being prepared and are expected to be finalised by the end of the first quarter of 2018
Thailand	<ul style="list-style-type: none"> ▸ Finalized review of approval process and expected fees ▸ Drafting relevant regulations commencing in 2018

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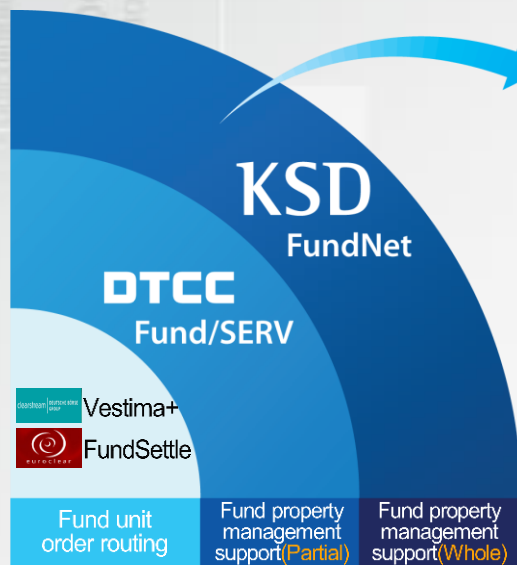
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► Diverse and Extensive Services



Regulation/Policy change

- Distribution company transfer(2010)
- Hedge fund service (2011)
- Centralized fund report management(2012)
- Managed asset platform (2013)

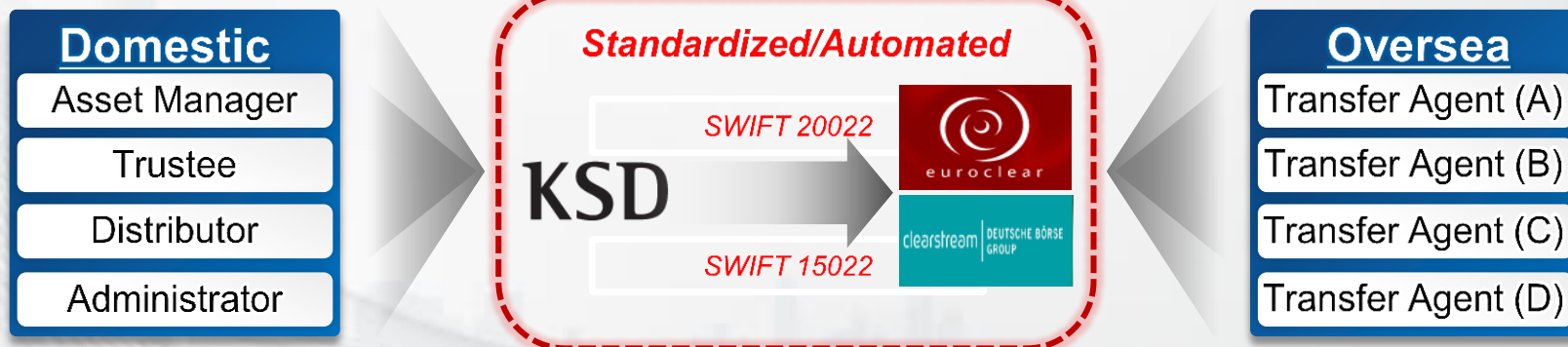
Market demand change

- Support for discretionary investment(2007)
- Fund portfolio matching (2011)
- Link to Euroclear Bank (2012), Clearstream (2014)
For Off-shore fund service

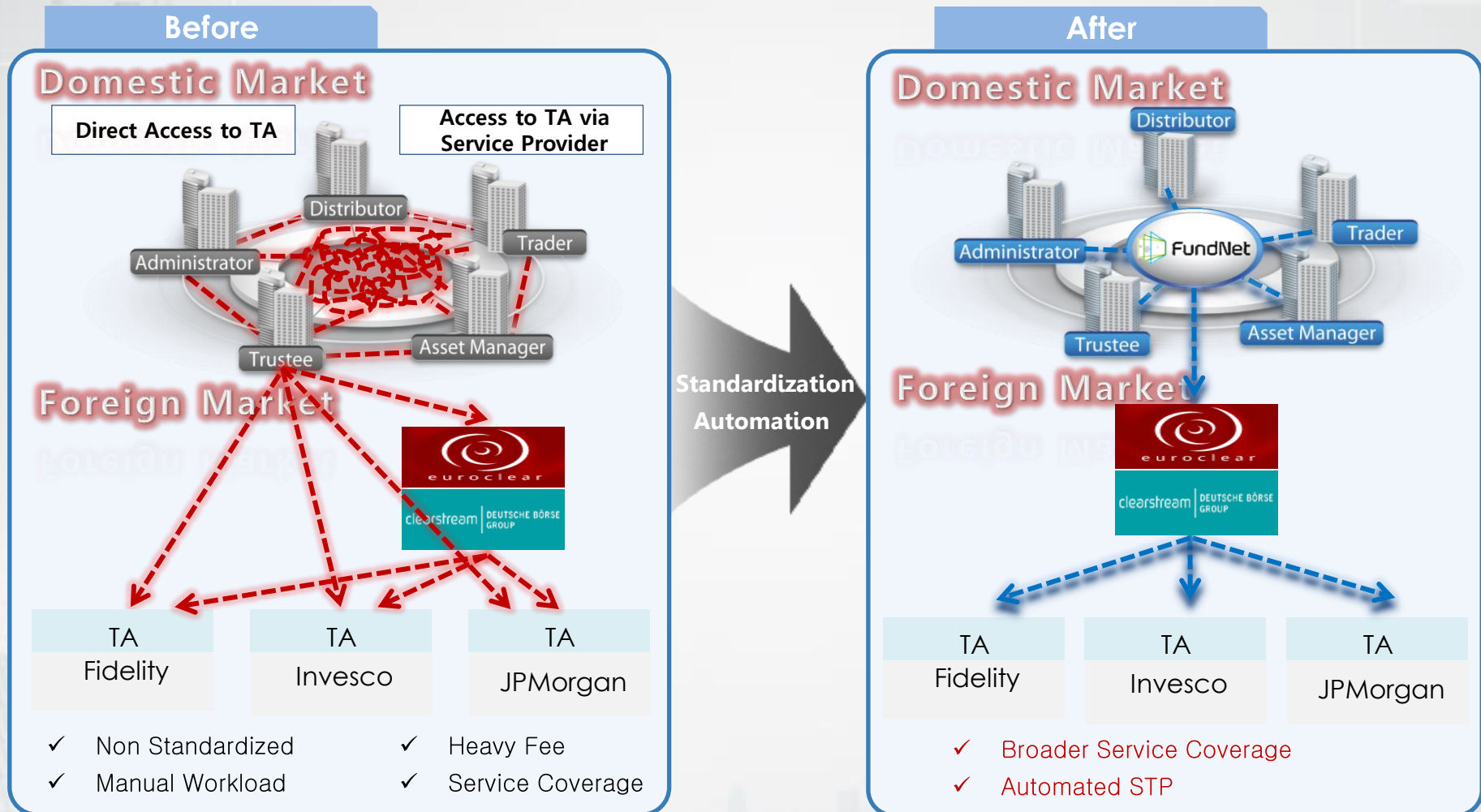
Globalization

- Linkage to Omgeo (2009)
- Support for foreign fund commissioned Investment (2009)

► Global Standard via Linkage with Global Fund Platforms



- KSD established the Off-Shore Fund Platform to resolve the problems of the existing models of off-shore fund investment. 1**



Thank You

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