

GOVERNMENT PREPARES TO LAUNCH ASIA REGION FUNDS PASSPORT IN MAY

The government has revised the enforcement decree of the Financial Investment Services and Capital Markets Act and other relevant rules for the implementation of the Asia Region Funds Passport. The ARFP will be launched on May 27, 2020 after a 40-day of promulgation and screening of regulations.

BACKGROUND

The ARFP is a multilateral investment promotion initiative between the five member economies¹ aimed at promoting cross-selling of publicly offered local funds in each other's economies through standardized and streamlined registration process.

The five member economies agreed to launch the ARFP at the APEC finance ministers' meeting in September 2013. The members signed a memorandum of cooperation (MOC) in April 2016, and have worked on domestic legislative changes for the implementation.

In November 2019, the Korean government completed the revision of the Financial Investment Services and Capital Markets Act, and has since worked on revising the relevant rules and regulations to reflect the details of the MOC.

KEY PROVISIONS

► REGISTRATION FOR LOCAL FUNDS

Publicly offered local funds in Korea that meet the following requirements can apply to be registered as passport funds to be offered in overseas markets.

Management qualification	<ul style="list-style-type: none">- asset under management: minimum USD500 million- capital requirement: minimum USD1 million- human resources & organization: seasoned board members, professional asset managers & internal risk management process- operational experience: 5 years of legitimate & independent asset management experience
Fund qualification	<ul style="list-style-type: none">- fund operation: sales of financial assets (stocks, deposits, deposit certificates, short-term financial instruments) and derivatives, securities lending agreement- restrictions: limits on single-item investment and other restrictions (index funds may be subject to eased regulations)- safekeeping: by trust companies, separate from other assets

¹ Korea, Australia, New Zealand, Japan and Thailand

► **REGISTRATION FOR FOREIGN PASSPORT FUNDS**

Foreign passport funds, by submitting registration statement, will be available for sale in Korea through a streamlined process.

If an infringement of the MOC is found to have occurred by another member country, or the Korean funds face unfair sales restrictions overseas, the government may withdraw the privilege.

Foreign passport funds sold in Korea will be subject to the same rules, regulations and investor protection measures as the local publicly offered funds.

► **REGULATION FOR INVESTOR PROTECTION**

All passport funds are subject to compliance audit regardless of the size of the fund. The fund managers are also required to report to both the home and the host countries about of the relevant information regarding funds, such as cancellation, delayed payments, violation of laws, etc.

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