Taiwan eases rules on offshore funds' China exposure, with conditions

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Taiwan's financial regulator is easing restrictions on offshore funds' China exposure, but the concession is only given to foreign managers that can fulfil certain requirements under an incentive scheme.

Under the Deep Cultivation Plan (鼓勵境外基金深耕計畫), which grants special waivers to foreign managers with contributions to the development of Taiwan's fund industry, foreign fund firms can invest up to 40% of their offshore funds' assets in China, but only for one year. Last week the **Financial Supervisory Commission** **announced** that eligible managers under the incentive scheme can also choose to use that 40% cap on one of its offshore funds permanently.

The cap for offshore funds outside the scheme is 20%. Onshore funds domiciled in Taiwan are not subject to the limit.

Xav Feng, Lipper

The 40% and 20% China exposure caps were already **raised** from 30% and 10% in December last year, but the limits are still seen as "unfair" by some foreign asset managers, says Xav Feng, Lipper's Taipei-based Asia-Pacific research head.

"The cap on investment in China was raised, sure, but foreign managers have questioned why they are subjected to a cap at all when domestic players aren't?" Feng says.

A source who works at one of Taiwan's largest foreign fund firms by assets voices a similar concern, saying that the 40% cap is still prohibitive.

"It still limits the industry's investment flexibility, which will impact not just us but also the investors," the source says. As a result, the company has opted not to register any offshore A-shares fund in Taiwan. The gap is filled by onshore or offshore funds investing in Hong Kong-listed H-shares.

The source adds: "Our business is global so we can't possibly adjust our offshore funds' strategies because of restrictions in any one market. Compliance is a top priority for us, but we also hope that Taiwan's regulations can be aligned with global standards."

The China investment cap last year forced **Aberdeen Standard Investments** to **deregister**its Luxembourg-domiciled Aberdeen Global-Chinese Equity Fund in Taiwan; **Robeco** also did the same with its Chinese Equities Fund.

Donna Chen, Keystone Intelligence

Donna Chen, Taipei-based president of Keystone Intelligence, says only two offshore funds had to be deregistered in Taiwan last year due to the cap.

As of end-January 2019, the market still has 27 offshore funds investing in China and Hong Kong, in addition to 77 funds investing in Asia-Pacific ex-Japan and 14 funds investing in the APAC markets including Japan, Chen adds.

"This group of products can all potentially benefit from the options to have the 40% cap for one year, or permanently for one single fund. The second option means companies don't have to worry about having to adjust fund strategies every year because they may not be selected for the Deep Cultivation Plan every round," she explains.

But ultimately the China cap is not the biggest reason foreign managers want to participate in the incentive scheme.

"The main reason why big foreign managers are interested in the scheme is the ability to raise up to 70% of an offshore fund AUM in Taiwan. Without the scheme, the cap is at 50%," Chen says. She adds that the ability to submit three funds for registration in one go is also attractive; companies not in the scheme can only apply for one fund at a time.

Room for enhancements and clarity

The Deep Cultivation Plan selects its entrants annually and the benefits are generally granted for the one year before the next selection.

Last year there were **seven** foreign managers selected. They were **AllianceBernstein**, **Allianz Global Investors**, **Eastspring Investments**, **Franklin Templeton Investments**, **Schroders Investment Management**, **Fidelity International** and **J.P. Morgan Asset Management**.

When approached by *Ignites Asia*, an FSC spokesperson stresses that the regulator is very attentive to the industry's concerns, as evidenced from the frequent adjustments made to the scheme.

"We will certainly continue looking for ways to improve, based on the feedback we receive. So if the industry players have any comments and concerns they are most welcome to approach us," the spokesperson adds.

The FSC also announced on February 26 various changes to the scheme’s selection criteria, in order to lower the entry barrier for small and mid-size managers.

To qualify for the scheme, foreign asset managers are expected to meet three sets of criteria, pertaining to investments made in Taiwan, the size of local AUM and the development of domestic talent.

In the latest round of changes, the FSC has also relaxed some of the AUM criteria.

For instance, part of the criteria originally noted that foreign asset managers should have at least NT$10 billion (US$320 million) of average AUM for the past year – excluding money market fund assets – and the AUM growth in that period must be 5 percentage points higher than the market’s average growth rate. The FSC has now removed the 5 percentage point requirement, so companies are only expected to have a growth rate aligned with the market’s average.

Lipper’s Feng, however, believes there is still room for the scheme to improve, such as giving clarity on what is expected from foreign managers in the areas of talent development and staff recruitment.

“[The scheme] has criteria like showing tangible results in helping master agent or Taiwan office nurture investment research, product design and risk control experts. There’s simply not enough clarity, hopefully the regulator can communicate its requirements better with the industry,” Feng adds.