SOUTH AFRICA NMPG (ZA)

Request to amend MP to communicate COIN - GMP1 amendment

# background

South African withholding tax is applicable on all dividends whether the dividend emanates from within South Africa or a foreign source. The withholding of tax on dividends paid from a South African source is straight forward however a foreign dividend would be affected by the source from where the dividend is paid and the stipulations of the applicable Double Taxation Treaty to compute entitlement.

A foreign dividend, as per the Tax Act, would be where the dividend payment is made from a foreign source (made from outside South Africa).

In 2016 the COIN qualifier (CR318) was introduced and, as per the below SWIFT definition, South Africa requests approval to utilize COIN to differentiate between a local and foreign dividend.

**COIN Country of Income Source Indicates the country from which the income originates.**

# Motivation for inclusion of coin

Market participants evaluated the COIN SRG2016 change and resolved that this piece of information will significantly aid beneficiaries to dividend distributions

1. to distinguish between a South African local dividend and foreign dividend and;
2. to more accurately compute entitlements and aid reclaiming withheld taxes and;
3. aid Regulated Intermediaries, legislated withholding agents of the South African Revenue Services (SARS), to fulfill their obligations as agents of SARS (withhold, report and pay taxes).

We may mention that clients are of the same view as they have expressed the need for this information and thus regularly request this information. It could be cursorily argued that the investor should be aware that a company’s dividends would be foreign and that the foreign dividend annotation could be a reference data item. However, it must be acknowledged that intermediaries are extensively utilised in securities markets and thus the intermediary/ies would not necessarily have this information. Furthermore, the JSE’s augmented Listing Requirements obliges Issuers to state in their market announcements when the dividend (or portion thereof) would be classified as foreign.

Global Market Practice Part 1 (GMP1) guides as follows: -

“Usage of Country of Income Source (COIN) Place Field

The Country of Income Source Place fields present in cash and securities movement sequences of the MT 564 and M T566 should not be used for Depositary Receipts (ADRs or GDRs) to specify the origin of the underlying instrument. It should only be used in exceptional cases when the country of origin of different portions of an income (for one specific instrument) needs to be identified. It will usually happen when a different tax rate must eventually be applied to the different income portions. This information should be filled in in messages when provided by the issuer or its agent only. The following example shows how this COIN qualifier should be used: Brookfield Renewable is paying income to the securities holders from three different sources, from two different countries, the field :94C::COIN is used to identify the source country for each income portion in an MT566:”

South Africa requests that GMP1 should be amended as follows: -

Usage of Country of Income Source (COIN) Place Field

The Country of Income Source Place fields present in cash and securities movement sequences of the MT 564 and M T566 should not be used for Depositary Receipts (ADRs or GDRs) to specify the origin of the underlying instrument. It should be ~~only be~~ used in ~~exceptional~~ cases when the country of origin (country from which the income is paid)of ~~of different portions of an~~ income (or portion thereof ~~for one specific instrument~~) needs to be identified. It will usually happen when a different tax rate must eventually be applied to the ~~different~~ income or different tax rates to different portions of the income. This information should be filled in in messages when provided by the issuer or its agent. ~~only~~. The following example shows how this COIN qualifier should be used: Brookfield Renewable is paying income to the securities holders from three different sources, from two different countries, the field :94C::COIN is used to identify the source country for each income portion in an MT566:

The above amendment will allow COIN to be communicated and it will aid: -

* + - Entitlement computation
    - Tax reclaims
    - STP, etc

The recipient also receives this valuable piece of information in the movement sequences of the MT564 and MT566 thereby allowing for more accurate entitlement projections.