

SMPG – Tax sub-group

Telephone Conference Minutes

4th June 2020

Publication: October 2020

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# Attendees

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Country** |  | **First Name** | **Last Name** | **Institution** | **Participation** |
| AU | Mrs | Narelle | Rutter | ASX | Excused |
| BE | Mrs | Véronique | Peeters | BNY Mellon | Excused |
| N / A | Mr | Jacques | Littré | SWIFT | Excused |
| CA | Mr | Cairbre | Cowin | RBC IS | Excused |
| CH | Mr | Reto | Baumgartner | Credit Suisse | Excused |
| DE | Mr | Daniel | Schaefer | HSBC | Excused |
| DE | Mr | Thomas | Rockstroh | Clearstream | Excused |
| SE | Mr | Urban  | Hane | Nordea |  |
| FR | Mr | Jean-Pierre | Klak | State Street |  |
| FR | Mrs | Stéphanie | Clark-Fischer | BP2S |  |
| FR | Mr | Pierre-Antoine | Patinet | BP2S | Excused |
| FR | Mr | Ilyas | Alikoglu | Bank of New-York |  |
| IT | Mrs | Paola | Deantoni | Societe Generale | Excused |
| LU | Mr | Alexander | Reis | Clearstream |  |
| SG | Mr | Jyi-Chen | Chueh | Standard Chartered | Excused |
| UK & IE | Mrs | Mariangela | Fumagalli | BNP Paribas |  |
| US | Mr | Paul | Fullam | FIS Global | Excused |
| US | Mrs | Vandana | Pasricha | BBH | Excused |
| US | Mrs | Elizabeth | Lanfear | BBH |  |
| US | Mr | Caleb | Lanfear | BBH | Excused |
| US | Mr | Ian | De Sacia | DTCC | Excused |
| US | Mr | Steven | Sloan | DTCC | Excused |
| XS | MR | Jean-Paul | Lambotte | Euroclear | Excused |
| XS | Mr | Eric | Marega | Euroclear | Excused |
| ZA | Mr | Sanjeev | Jayram | First National Bank |  |
| ZA | Mr | Dale | Van Rayne | First National Bank | Excused |
| ZA | Mr | Yusuf | Basha | First National Bank | Excused |

# Approval of April 2020 minutes call

April minutes sent late. No comments during June call and limited attendance.

To be formally approved during the next call if any amendments should occur.

# Tax “Refunds” in the Opposite Direction.

Further to Robin Leary’s previous presentation in April, some additional comments were raised during the June call:

Liz confirmed that her preference is a Cancel / Replace process via MT566
Sanjeev explained that the context was understood but it should be considered as an adjustment of an incorrect initial posting
Finally, Mari suggested to see if some additional examples could be find in some other Markets and this case will also be shared within the UK Market.

April 2020 call:

The call started by a presentation by Robin Leary of the business case related to the so called topic ‘Tax ‘’refunds’’ in the opposite direction’.

To help discussions, some additional examples were provided by Robin. Please see below:

‘’It’s kind of a reverse of the tax refund. Instead of crediting an amount because too much tax was paid, this is debiting because too little tax was paid.

The way we’ve looked to do it is as a tax refund but with a debit CASHMOVE and a negative TRXC rate (instead of a positive one you’d normally see with the refund).

The following example is from an UAT environment with GBP element but the case is related to Japan and LATAM countries.’’

**Scenario:**

Original WTH rate =                         10%

Original Local rate =                        30%

Gross Dividend =                              GBP 2.18

WTH Tax =                                           GBP 0.22

Net Received =                                  GBP 1.96

Local Tax =                                          GBP 0.65

Net Dividend =                                  GBP 1.31

Replacement WTH rate =              50%

Replacement Local rate =              5%

Tax Reclaim rate =                           (-)15% (i.e. 10%-50%+30%-5%)

Tax Reclaim amount (Debit) =     GBP 0.33

**Tax Refund MT564 Entitlement Notification:**

:16R:GENL

 :20C::CORP//39931900300

 :20C::SEME//39931900304/001

 :23G:NEWM

 :22F::CAEV//DVCA

 :22F::CAMV//VOLU

 :98C::PREP//20191122074727

 :25D::PROC//ENTL

 :16R:LINK

 :13A::LINK//566

 :20C::PREV//39931900301/003

 :16S:LINK

 :16S:GENL

 :16R:USECU

 :35B:ISIN GB00B0FYMT95

 HELICAL PLC

ORD GBP0.01

 :16R:FIA

 :94B::PLIS//EXCH/XLON

 :22F::MICO//OTHR

 :16S:FIA

 :16R:ACCTINFO

 :97A::SAFE//6000000000

 :93B::ELIG//UNIT/150000,

 :93B::INBA//UNIT/0,

 :93B::UNBA//UNIT/150000,

 :16S:ACCTINFO

 :16S:USECU

 :16R:CADETL

 :98A::RDTE//20190131

 :98A::XDTE//20190131

 :92F::INTR//GBP14,5

:22F::ADDB//CAPA

 :22F::ADDB//TAXR

 :16S:CADETL

 :16R:CAOPTN

 :13A::CAON//001

 :22F::CAOP//CASH

 :11A::OPTN//GBP

 :17B::DFLT//Y

 :98B::RDDT//UKWN

 :16R:CASHMOVE

 :22H::CRDB//DEBT

 :97A::CASH//00000012345678

 :19B::GRSS//GBP0,33

**:19B::TXRC//GBP0,33**

 :19B::ENTL//GBP0,33

 :98A::PAYD//20190131

:92A::TXRC//N15,

 :16S:CASHMOVE

 :16S:CAOPTN

 :16R:ADDINFO

 :70E::ADTX//TEST  6

 :95P::MEOR//CITIGB2L

 :16S:ADDINFO

**Tax Refund MT566 Confirmation:**

:16R:GENL

 :20C::CORP//39931900300

 :20C::SEME//39931900304/002

 :23G:NEWM

 :22F::CAEV//INTR

 :98C::PREP//20191122074727

 :16R:LINK

 :13A::LINK//564

 :20C::PREV//39931900304/001

 :16S:LINK

 :16S:GENL

 :16R:USECU

 :97A::SAFE//6000000000

 :35B:ISIN GB00B0FYMT95

 HELICAL PLC

 ORD GBP0.01

:16R:FIA

 :94B::PLIS//EXCH/XLON

 :22F::MICO//OTHR

 :16S:FIA

 :93B::ELIG//UNIT/150000,

 :93B::CONB//UNIT/150000,

 :16S:USECU

 :16R:CADETL

 :98A::RDTE//20190131

 :98A::XDTE//20190131

 :22F::ADDB//TAXR

 :16S:CADETL

 :16R:CACONF

 :13A::CAON//001

 :22F::CAOP//CASH

 :16R:CASHMOVE

:22H::CRDB//DEBT

 :97A::CASH//00000012345678

 :19B::GRSS//GBP0,33

 :19B::TXRC//GBP0,33

 :19B::NETT//GBP0,33

 :19B::PSTA//GBP0,33

 :98A::POST//20191115

 :98A::VALU//20191115

 :98A::PAYD//20190131

 :92A::TXRC//N15,

 :92F::INTP//GBP14,5

 :16S:CASHMOVE

 :16S:CACONF

 :16R:ADDINFO

 :95P::MEOR//CITIGB2L

 :16S:ADDINFO

**Discussion during April 2020 call:**

People need to disregard the split between INBA / UNBA balances. UNBA balance is only due to test environment so not a key point in the example provided.

The first point raised to Robin by the tax subgroup was this issue related to the Cancel / Replace process not applied in the proposed scenario.

In the different / comments questions:

Is it an internal adjustment or related to a Market adjustment? If it is a Market adjustment, then it can’t be something else than a cancel / replace. Furthermore, knowing that additional cash will come in relation to the Tax Reclaim, it is difficult to identify the exact Tax rate without a cancel / replace. The original local rate needs to be known.

Even if the rationale is clearly understood, the IT systems are not built for negative Tax rates.
It may create a potential issue in the reconciliation process.

.

Robin explained that the reason why the cancel / replace was not envisaged is due to the fact that here we are in the case of a first booking / posting followed by a second booking /posting.
Today, there are no messaging related to this case, the information is only sent via email.
It is the aim of this proposal to migrate into a SWIFT based format

Mari highlighted the fact that we need to pay attention on countries where there is a Tax Credit process.

If the solution proposed by Robin is accepted, the group confirmed the need of a clear definition and process knowing that the 2 following cases need to be taken into consideration:

a/ Markets with a standard Tax reclaim process
b/ Markets where a quick refund is applied. It is a practice in some Markets to credit the difference. Example of the QI certification: first, the account may be taxed at 30pct and when the certification is provided a credit of 15pct is posted back.

In addition to the US, in some countries such as Italy or France, when the required documentation is received, the local custodian being also a Tax agent can adjust the original rate.

Regarding the second event (the adjustment), should it be under the same Corporate Actions event (i.e. DVCA as in the example provided by Robin) or rather a TREC (long definition = event related to Tax Reclaim activities)?

It appears that there is a need for a common example that could cover all cases. Some additional examples related to different Markets will be also welcome.

As a conclusion, if the Tax sub-group agrees on the proposal, the only impact would be to change the current TXRC definition in the SWIFT standards.

Current TXRC definition:

|  |  |  |
| --- | --- | --- |
| TXRC | Reclaim of Taxes | Amount that was paid in excess of actual tax obligation and was reclaimed. |

 \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \*

February 2020 call: No progress. JP will double check if the topic is still open

Comments / additional questions during December 2019 call:

Is the case similar to Tax adjustment as for QI in the US ?

We need to clarify if it is related to a payment adjustment or refund because refund may implies other concerns such as tax collection to Tax authorities

Are we in a Quick refund scenario ? but what could be the added value compared to a cancel / replace ?

Similarly to the above question, is it rather an adjustment on the income payment or an adjustment on the taxation part (Tax reclaim itself) ?

Sanjeev will check how it works in South Africa because this case seems to remind him a similar scenario in the South African Market.

**In addition, Daniel sent also some comments by email:**

*To me, if the tax rate of a payment has been wrong, this is totally different than a tax reclaim.*

*An incorrect payment calls for a reversal and corrected payment.*

*A Tax Reclaim is generally initiated by the investor on a case-by-case basis; sometimes it is based on a standing instruction.*

*A correction of the tax rate as a tax credit would generally not be processed as a tax reclaim credit.*

*Similarly, a correction of the tax rate as a debit should also not be processed as a reverse tax reclaim.*

*If the tax rate or the taxable amount was incorrect, a new MT564 should be sent, correcting the previous announcement. Many actors would not expect to receive an MT564 with corrections of event data once the event has been processed. The only case where 564s should follow 566s would be Market Claims and these messages should not be used to amend important event data.*

*The majority of actors would therefor expect the MT566 to be reversed before receiving an MT564 with corrected event data fields.*

*Therefore, the tax should not be corrected by merely posting a tax reclaim to pay the tax difference amount, but as a reversal and corrected new posting.*

Discussion during October 2019 call:

The group was wondering why the process was not proposed or managed via a Cancel / Replace? Referring to the example: 'Tax applied was 15% and it should have been 20%',
1. Is the need only to communicate the difference between the two tax rates / amounts applied
or
2. Is there any posting adjustment on client account?

Nevertheless, in both cases, the group would recommend a Cancel / Replace process.

JP will come back to the requestor in order to get some more documents or Market examples on this case in order to clarify the business scenario.
The group also asked how often this case appears?

**Action**:

N/A. topic on hold from a Tax Sub-group perspective, the group being still reluctant to another scenario than the standard Cancel / Replace

# CA 438 Review GMP1 section 3.14 - (Movement Sequence & Tax Rates)

June 2020 call: no progress

April 2020 call: still no progress and unfortunately impossible to be covered during the global SMPG due to the special circumstances and limited attendance physically present in South Africa

February 2020 call:

No progress on that topic. To see if it could be discussed during SMPG in South Africa

Comment during December 2019 call:

Mari explained the case where one dividend could have different tax rates applied and according to the issuer, announced in two separate events.

In the UK Market, it appears that there is one event for the normal dividend and a second event announced with property rate

In other Markets: there are also some cases with multiple components on the distribution so tax rates were repeatable which is no longer the case.

Urban explained that the scenario is not necessarily applicable for Nordics

Alexander and Eric, from their ICSD perspective pointed out that it could relate to some few Markets and some specific instruments… but breaking the STP due to a specific case and specific Market practice.

Sanjeev also identified a similar scenario for South Africa and will provide an example

Comment received by email from South Africa prior to October 2019 call:

“Ideally each distribution (component) should be communicated in its own movement and we are not aware of instances where a distribution may be subject to more than 2 withholding taxes, i.e. as announced by the issuer and the local. We acknowledge though that a distribution may be subject to multiple taxes, e.g. withholding, capital, income, transfer tax, etc. Furthermore, we’re of opinion that blended rates (made up of 2 or more rates) do not provide the required clarity and therefore we should encourage that each component should be communicated as a separate movement. The use of blended rates could then be considered for a specific market practice, i.e. only for that particular market.”

Input from Frankfurt April 2019 SMPG meeting discussions:
Mari described the background.

Different component of income distribution should have the relevant tax rate in the same cash movement block as per section 3.14 MP. However, it is no longer fully possible to follow section 3.14 after CR1294 in SR2018 stopped TAXR and WITL tax rates from being repeated.

It’s no longer possible to have several rates repeated in the subsequence so the market practice is no longer correct.

Dividend, real estate, capital return should be in different movement sub-sequences with the applicable tax rates. If you have the same tax rate then it’s ok to show all income in one subsequence.

**Action**:

The group will share Market examples they can find.
Mari and Jean-Pierre will review 3.14 and propose an amended version that will be illustrated with some examples taken from those shared by the group.

# CA 447 New MP required for the usage of Rate Type Code CDFI

June 2020: a call will be organized in June between Sanjeev, Jyi-Chen and JPK on this topic

April 2020 call: still no progress and unfortunately impossible to be covered during the global SMPG due to the special circumstances and limited attendance physically present in South Africa

February 2020 call:

No progress on that topic. To see if it could be discussed during SMPG in South Africa

Comment during December 2019 call:

Topic merged with CA 427. No updates

Comment during October 2019 call:

A Market Practice has been required during the last Maintenance Working Group (MWG) due to some reluctance (more particularly from the French Market) on the new short definition of CDFI i.e. ‘Foreign Income’.

Misuse concerning TAXR – WITL – WITF where Local and Foreign where always difficult on that.

**Action**:

Mari, Sanjeev, Jyi-Chen and Jean-Pierre will propose a new Market Practice

# CA 449 New MP for the usage of TAXR in Instruction (SR2020 - CR1551)

June 2020 call

The group reviewed the last version of the documents prepared by Mari



1 - Relief At Source document:

As indicated in the document, the Option 1 is the recommended one, nevertheless if we mention option 1 as our preference, a client may ask to its service provider to use the scenario 1 so we need to be careful on the wording. We can say that the scenario 1 is the preferred one but the scenario 2 is still accepted

Regarding Mari’s question on page 5 of the document: ‘’Do we need a market deadline or a RDDT is enough?’’, the group agreed that the Market Deadline can’t be used at all because the event is not announced by the issuer

Regarding Mari’s question on page 7 of the document:
“”d. The account servicer will pay the income proceeds using the quantities and tax rates provided by the account owner in the MT565.

The MT566 should be issued using the event details of the DVCA (e.g. CORP//DIV3437592). It is recommended that the account servicer issues:

• either one MT566 per tax rate, or

• one MT566 with repeating movements, one movement per tax rate.””,

The Nordics are rather on choice 1.
Another feedback was received from Mari outside the call for choice 2

Liz considered that the US would be rather on the second choice. To be confirmed

N/A for South Africa
Alexander explained that Clearstream has both scenarios depending on the Market

Scenario 2 description is ok for the group.

2 – Quick refund document

The scenario is on a quick refund but when some players would ask for a preliminary breakdown (Spain? Belgium?)
Ilyas explained that he never heard about a breakdown requested before the quick refund so if it is the case, so maybe that a file is used for the moment.

April 2020 call:

Mari confirmed during the call that there is an need for some additional examples related to the Tax refund scenario. An additional document will be shared by Mari with the group as soon as it is completed.

It has been also decided to launch a Change Request for SR 2021 in accordance to the proposed Market Practice.

February 2020 call:

Mari presented the draft Market Practice she prepared

Discussion during the call:

- regarding the part ‘The WTRC event will have a NOAC and a OTHR option to request the tax rates to be used to pay the income proceeds (e.g. statutory rate, DTT rates, etc)’, The group discussed on the fact that option CASH is not proposed. Knowing that there is no Cash movement, it is agreed that a CASH option would be confusing (similarly to a Disclosure request, for example).
Consequently, should we ask for a new option code to be created only for this event? SG, XS and FR would be OK for the creation of a new code.

- Discussion on COAF: WTRC is only a service provider event so it should be without COAF and linked to the original DVCA/INTR. The response deadline date needs to be before the Pay-date of the DVCA/INTR event.

In scenario 2, MT564 DVCA/INTR CHOS: the only difference between all options should be the Tax rate.

During the call, SE, XS and ZA confirmed that they are in favour of scenario 1.

In addition to the above, Thomas (Rockstroh) provided also by email the following feedback from Germany:

“We don’t have really a relief at source in German market. We have since 2018 a tax reduction process on paying agent level only for certified investment funds.

It is more or less a transfer or responsibilities of standard refund from central tax office to paying agent (tax agent) with limitation of time period 18 month after RD of the income event. Afterwards Fund Company must contact central tax office in Germany to start DTT tax reclaim (statutory deadline 4 years).

Based on the required information’s each Custodian including CSDs collect the information regarding the German InvStG tax reduction on different ways.

For real RAS markets and RAS process we prefer scenario 1.”

Mari also started to work on the other Markets (eg. Austria, Belgium, Switzerland, …) where Relief at Source is not applicable.
In such a case, TREC event will be used instead of WTRC and in scenario 2, it will be TREC with multiple options.

Comments during December call:

Mari and JP explained the background related to the SR2020 Change Request only focused on the MT565 and the link with the previous analysis and discussion on the certification processing flow: Scenario 1 – Scenario 2 on MT564.

The majority of current participants of the Tax sub-group were not involved in the initial discussion related to the MT564 and would be happy to re-visit the case.

Comment during October call:

The next SR 2020 will allow usage of the qualifier TAXR in sequence C (BENODET) of the MT 565.

As stated in the MWG minutes: The usage of the TAXR rates in the MT565 would be for specific use cases and it should not be used directly with income MAND event but rather in the context of WTRC events linked to mandatory income events.

**Action**:

All participants to come back with their comments to Mari before 12th June 2020.

The document will be presented to the global Corporate Actions SMPG call on 16th June for a feedback from all NMPGs for mid-July

# AOB

**Tax payments related to trade activity**  **=> Topic on HOLD**
i.e. Stamp Duty, VAT, FTT, Cap Gain Tax etc.

Input from Brussels September 2019 SMPG meeting discussions:
Mari and Christine, as co-chairs of the CA SMPG met co-chairs of the Settlement & Reconciliation Working Group. Topic on hold for the Tax sub-group for the moment.

Comments during June 13th  2019 call:

During the physical SMPG meeting in April, the subject has been shared between both co-chairs from Corporate Actions and Settlement/Reconciliation working groups.

BBH is requested to write a white paper to explain the different scenarios and requirements

Attention point raised on Capital gain Tax: different methods depending on the country eg: Thailand vs Indonesia pre-settlement vs post settlement

During June 13th call, Eric suggested that a good example could be the taxation related to section 305C ; US domestic deemed dividend

Comments during March 28th 2019 call:

The US Market added some few bullets for this topic

- Specific trade transactions in a subset of markets are subject to certain taxes (e.g. Stamp duties, Transaction Tax, CGT).  Custodians and sub custodians are often times in the “middle” of the process to ultimately effect payment.
- Client behavior and sub custodian practices aren’t consistent and the process is bifurcated. There is lack of visibility regarding end-to-end oversight of transactions from sub to custodian and down to Beneficial owner for transactions that are subject to these taxes; Process historically has been isolated to cash debit and manual in most banks
- There is limited ability to track,  validate and ensure payments have been processed.  Multiple touch points within banks to determine if payments are processed

- BBH has proposed to the SMPG tax sub group to consider building a swift payment (Transaction tax debit) to allow for more transparency, controlled environment and streamlined process.
- Other participants in this call should engage internally to seek out what the current process is and consider if the new tax debit message would be helpful

Topic raised in January 2019 as follows:

The US Market raised a new subject to discuss / investigate within the Tax sub-group: taxation that relates to Securities settlement activity.

Jean-Pierre highlights that, in France, when the Financial Transactions Tax (FTT) has been implemented the Market Practice was jointly established between the Settlement / Reconciliation NMPG and the Corporate Actions NMPG.

Consequently, we’ll have to pay attention to the fact that, depending on the subject we’ll discuss,
we’ll have to include the Settlement / Reconciliation group in these discussions.

**Action**:

Topic on hold

# Market updates

Attached the follow up file covering the different Market initiatives.



Please find also below an extract limited to Countries + expected implementation dates



During the June call, a new topic has been raised: Spain wants to apply its own Financial Transaction Tax (FTT): official announcement published on 28th Feb 2020. The subject is currently discussed and reviewed by the Spanish Parliament for an expected implementation in January 2021.

The topic has been added in the follow-up file

# Tax data in an initial announcement

June 2020: topic still open? (TBC)

April 2020: topic postponed to next time due to the fact that Urban couldn’t attend.

February 2020 call:
Urban came back to the case raised in December.

The situation is rather when sending an information to the clients far away from the dividend payment. More precisely, Urban explained that in recent development work, it has proven difficult to include the actual tax rate to be applied for a certain account already in the MT564 PREC and COMP of a DVCA event.

Knowing that it would however continue to be included in the MT564 REPE and in the MT566 Payment Confirmation, Urban would like rather to see if the group consider this change controversial, and/or contradictory to any recommendations agreed by the group?

Several people within the group raised that it is difficult to say that the tax rate has to be mandatory and some participants clearly disagree to put it mandatory. Indeed, it appears that major custodians don’t include it either until REPE message. Jyi-Chen suggested that, at least, the message should contain the maximum rate.

December 2019 meeting:

Urban would like to discuss with the group the way to manage Tax information in the initial announcement of a Cash dividend

One possibility could be to put the single account in B2 without any tax mentioned but what, from a client point of view, what should be the minimum requirement?

In other words, how mandatory the Tax data should be in our SMPG recommendation, e.g.: default tax rate , tax rate due to documentation received, etc … ?

**Action**:

Discussion to be continued

# Next Conference Calls

In 2020, the next calls will take place on the following dates:

30th July – 22nd October – 10th December (call from 2:00 to 3:30 pm Paris time)

**------------------------ End of the Meeting Minutes -----------------**