

SMPG – Tax sub-group

Telephone Conference Minutes

22nd April 2021

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# Attendees

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

# Approval of February 2021 minutes call

February Minutes approved

# Tax on Non-Distributed Proceeds Indicator (TNDP)

A new topic has been proposed by the US Market.

They proposed for discussion the need to broaden the Tax On Non-Distributed Proceeds Indicator on the MT564 / CANO so that it can be used to indicate when an event is based on a Tax Regulation and then be able to use the Data Source scheme appropriately.
There are three tax regulations which will be occurring in the US market to which the US Market would like to output an appropriate code to indicate which Tax Regulation this is related to.
3 solutions were proposed and discussed with the Tax sub-group:

1. Change the name of the field from Tax on Non-Distributed Proceeds Indicator to Tax Regulation Indicator.
2. Keep the Tax on Non-Distributed Proceeds Indicator and add a new qualifier Tax Regulation Indicator which could be used instead of the TNDP indicator when not related to a TNDP scenario.
3. Keep the existing Tax on Non-Distributed Proceeds indicator and change the definition (not the preferred one but will be needed in the short run until either option 1 or 2 could be implemented.)

The need is related to US source payments for non-US persons and a new regulation which will be implemented on January 1st, 2022.
Unfortunately, from a DTCC perspective, only 1 MT564 / CANO covers both cases: non-US persons and US persons

3 different scenarios were explained during the call:

Scenario 1: distribution of a partnership.
questions raised during the call:
- will it be mandatory to mention the Regulation in the announcement message?
- couldn’t we use TAXR + WITL, WITL used to highlight a second level Tax?
- should we have separate events or not for these cases?

Scenario 2: USD payment split into multiple components
The assumption is 1 CAEV per event so possible to distinguish per Regulation.
Shouldn’t we use ITYP?

As per the explanation provided, the case looks similar to the sundry payments in Australia.

Question about an ADDB to use.

Dale explained that in South Africa, for ETF distributions, there are different events because different rates.

On the other hand, Eric is not convinced that a new CAEV is necessary for this scenario but referring to 1446F regulation could be interesting. ITYP could be a possible solution to investigate.

The group is also asking about the volume concerned.

Scenario 3: 1446F imposes a 10% tax for non-US partnership. 92 days’ notice for withholding. The assumption is to use a INFO event. Here again, need for a new CAEV … or potentially not if, instead, there is a new indicator.

**Action**:

US Market to provide some examples to illustrate the different scenarios

# CA 465 - Add VOLU to TREC in EIG+

April 2021 call:

Topic discussed during the last CA SMPG. No more action requested from the Tax sub-group.
Alexander pointed the fact that WTRC event needs to be changed also in the EIG Matrix.

February 2021 call:

Catarina explained to the group, the background of the discussion related to the TREC event that needs to be added in the EIG Matrix as a Voluntary event.
It refers to the Market Practice prepared by Mari on the Tax breakdown (see CA 449). More particularly, it is linked to the scenario 2 of the Tax refund case.
We are in the situation of an omnibus account and the account servicer providing as many CASH options as the tax rates that can be used to pay the refund (e.g. statutory rate, DTT rates, etc).

Some points have been confirmed during the discussion.
The answer via an MT565 is driven via an SLA
All details related to the initial Dividend event (DVCA) are not due to be copied in the TREC event.
It is managed via the linkage field in the TREC event referring to the initial DVCA.
A validation of elements present in the MT565 may result into a possible MT567 to reject the breakdown instruction when it is wrong.

The initial proposal was with the following data:

Option = CASH

Date = Pay date (PAYD) – Mandatory

Rate = Reclaim of Taxes Rate (TRXC) – Mandatory

During the discussion within the group, it appeared that there was no deadline or response period indicated.

Finally the group agreed to add the Expiry Date (EXPI) as optional data.

Please see below, the extract of the EIG Matrix related to the proposal for TREC - Voluntary



December 2020 call:

Topic also pending on the CA SMPG. JP will double check with Catarina.

October 2020 call:

Since Catarina Marques, from Clearstream Luxembourg, cannot attend the SMPG meeting end of September, the discussion of this topic was postponed to the next Tax SG call on October 22 or the next SMPG CA WG call in November.

Unfortunately, JP didn’t have the opportunity to liaise with Catarina Marques on this topic.

**Action**:

Topic closed.

# Tax “Refunds” in the Opposite Direction.

April and February 2021 call:

Topic on hold.
JP would like to check again with Mari and get any potential feedback related to the UK Market.

December 2020 call:

The subject was not discussed in the UK Market yet.

Nevertheless, 2 scenarios were highlighted during the call:
- scenario 1 = when the Custodian is also a withholding Tax agent. In this case, there is a payment to Tax Authorities so if there is a change in the withholding tax, it is reversed from Tax Authorities to the custodian. In such a case, a cancel / replace is necessary.

- scenario 2 = quick refund (e.g. Belgium, Spain). In this case, the issuer is used to request specific documentation. So in our case, it means that the complete documentation was received after the initial payment. Here, the event which is used is a TREC (with the rate qualifier TXRC) and not the initial DVCA.

As a conclusion, the group still has an issue between ‘posting’ and ‘not posting’ case. If the withholding tax has been posted, then it can’t be anything else than a cancel / replace.

More generally speaking, and despite of the fact that Robin Leary already provided some examples, there is no specific NMPG request raised on this topic so it would be preferable to have first some NMPGs feedbacks and / or a specific request from a Market where there is this issue.

October 2020 call:

Final decision to take on this topic

Jacques also raised the fact that this topic has no number assigned for the follow-up.

It has been agreed during the call that if the topic is maintained, a number will be assigned, if removed, no more need for a number.

Mari suggested to see if some additional examples could be found in some other Markets and this case will also be shared within the UK Market.

June 2020 call:

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**:

Topic on hold.
Participants are still required to investigate on a similar scenario outside the UK knowing that this case is due to be discussed within the UK Market.

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

April 2021 call:
JP would like to check again with Mari the exact issue that has been raised in the past.

February 2021 call:

JP shared with the group the current definition of the section 3.14. Please see below.

**3.14 Movement Sequence Usage in the MT564**

All prices and rates are to be included at the relevant movement level (sequences E1/E2), not the option level (E). The only exception to this rule is when there will be no corresponding movement for the rate/price, at any time in the event. In this case, the rate/price can be included in sequence E. If the rate/price cannot be included in sequence E due to standards reasons, it must be included in the “Additional Text” element [**seq. E or F - :70a::ADTX <> E or F / AdditionalInformation / AdditionalText]**.

When multiple prices/fees and rates are announced for an option, each should be specified within its own movement sequence. An exception is use of ”Interest Rate Used For Payment”, ”Gross Dividend Rate” and “Net Dividend Rate”, and the applicable tax rates (for instance. ”Withholding Tax Rate”), when several rates can be included in the same movement sequence.

The Notification message should accurately reflect the projected movements on the cash/securities account, per option. If an option is included in the Notification with two cash movements and one securities movement, the Movement Confirmation message sent for that option should also include two cash movements and one securities movement. (Please note that these movements can be sent in separate Movement Confirmation messages.) See also section 6.10.

As per the original comments related to this topic, JP proposed to remove the part (highlighted above in yellow). Nevertheless, it appears that WITL is still repeatable.
Consequently, JP will double check with Mari and Christine, co-chairs of the CA SMPG what was the initial issue regarding the wording of this section 3.14

June 2020 / October / December call: no progress.
JP will share with the group the current version of the GMP for further discussion.

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**:

Topic on hold.
JP to review with Mari and Christine the initial issue related to the wording of section 3.14

# CA470 DVOP - How Best to Reflect Tax and CINL on DVOP

April 2021 call:

Topic presented to the CA SMPG. No additional action for the Tax sub-group.

February 2021 call:

First feedback within the group is that the PRPP being a Market information, it would be better to manage it as a general data and not a net calculated amount after tax being applied.

Input from Randi Hattens (Danish Market) during the global SMPG meeting end of September 2020:



The event template R/M/O (Repetitive / Mandatory / Optional) should be aligned with the EIG+.

During, the global SMPG, the Tax Sub-Group volunteered to work on how to best format the SECU option details.

**Action**:

Topic on-hold. Waiting for CA SMPG feedback.

# Market updates

Attached the follow up file covering the different Market initiatives.



Below an extract of this file limited to open topics



No updates during April 2021 call

# Tax payments related to trade activity (i.e. Stamp Duty, VAT, FTT, Cap Gain Tax, etc.)

April 2021 call:

In terms of messaging and Market Practices, it appears that such a topic can’t be managed by the current Tax sub-group, which is also, in terms of governance directly linked to the Corporate Actions SMPG.

In order to have some progress on that, Jyi-Chen and JP suggest to the US Market to liaise with **Aundrea Jarvis** from BBH who co-chairs, now, the Settlement & Reconciliation group (S&R) in order to be discussed first with the Settlement experts.

February 2021 call:

Knowing that this topic is on hold for a while, Liz would be happy if the subject could be re-open, discussed and investigated again

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 closed for the CA SMPG Tax sub-group.

# Next Conference Calls

Next call scheduled for 2021: 24th June (call from 2:00 to 3:30 pm Paris time)

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