

APAC CA WG Meeting Minutes – 20th November 2014

Time: 2 – 2.45pm SGT

Attendees:

Phoebe Chng	Clearstream
Yek Ling Yu	HSBC
Catherine Chiu	HSBC
Prashant	Information Mosaic
Mai Le	JPM
Tony Chen	Morgan Stanley
Jyi-chen Chueh	Standard Chartered
Nimit Jain	Sungard
Alexandre Kech	SWIFT
Magdalene Goh	SWIFT
Mieko Morioka	SWIFT
Mireia Guisado-Parra	SWIFT
Gurumurthy Golla	Thomson Reuters
Janardhan	Thomson Reuters
Nithin Krishnamurthy	Thomson Reuters

1. Korea – Tax

For cash dividend (DVCA), in KR, the issuers are announcing the tax exempted dividend rate, not 'taxable rate' (TAXE).

Tax exempted dividend rate means that when the total dividend rate is KRW 100 per share, KRW 50 will not be taxed. The taxable dividend rate is KRW 50.

SWIFT suggested the usage of :92J::GRSS//TXFR/KRWxx to specify the part of GRSS that is tax free after :92F::GRSS//KRWxx. However, the participants in Korea would prefer to have a dedicated qualifier for the tax exempted dividend rate mainly due to the fact that option J has to be added into the system, and even if they implement option J, the KR counterparties may not implement it and hence, it would not work.

Are there other countries in AP who have similar tax handling as Korea? And how is the tax exempted rate being announced currently?

The following points were noted:

Mieko (SWIFT), who represented the KR NMPG, gave a brief overview of the issue and also noted that about 3% uses :92J:GRSS//TXFR in the DVCA event.

Guru (Thomson Reuters) confirmed that they use field 92J for tax free in India, and field 92J is also used in cases like franked/fully franked/short or long term capital gains in other markets.

Jyi-chen (Standard Chartered) noted that the statistics was collected back in 2009 and only for one particular scenario hence showing a low usage. The usage is probably much higher if it is considered with other events and scenarios. He also added that Australia is using field 92J for franked/unfranked/tax free/sundry rates and Singapore uses field 92J for taxable income.

Mai confirmed that field 92J is frequently used in Australia and is not in favour of creating a new qualifier for the tax exempted dividend rate.

The overall consensus from the group was that field 92J is commonly used across different scenarios in different markets in APAC.

Actions:

Mieko will bring the comments back to KR NMPG at the next meeting in Jan/Feb 2015.

Magdalene will forward this issue to the SMPG Tax Sub-group to gain common global consensus.

2. Korea – CAVA usage

For events such as bonus issue, in KR, the securities distribution is regarded as 'income'. Therefore, they have to pay tax on it with specific tax rate announced. For example:

Distribution ratio: 1: 2.99935951

Par value: KRW500 per 1shs [this is necessary to calculate the cash amount of tax]

Taxable position: 0.000179725 [tax rate per share – not for amount but for quantity]

Eligible balance as of record date: 12,450shs

Tax amount = 12,450shs x 2.99935951 x 0.000179725 x KRW500 x WHT rate

When the figures are mapped to the MT 564 fields, we should be getting something like this (for E1 and E2):

E1: (Credit of the new shares)

:22H::CRDB//CRED

:22H::TXAP//TXBL

:35B:ISINxxxxxxxxxxxxxx

:36B::ENTL//UNIT/37342,0258995 --- (12,450 x 2.99935951)

:90B::CAVA//ACTU/KRW500,

:92D::ADEX//2,99935951/1,

:98A::PAYD//

E2: (Debit of the tax amount only)

:22H::CRDB//DEBT

:19B::ENTL//1006,6943407181

:19B::TAXR//1006,6943407181 --- (i.e. = 12,450shs x 2.99935951 x 0.000179725 x KRW500 x 0.30
(=WHT rate assumed to be 30%))

:98A::PAYD//

:92J::TAXE//WITL/KRW0,0898625/ACTU --- (i.e. = 0.000179725 xKRW500)

:92A::TAXR//30,

We would like to check if the group agrees with this example or if there are any other different ways to input the data in the MT 564?

The following points were noted:

Mieko gave a brief overview of the issue faced by the members of the KR NMPG. In the example provided by SWIFT, the mapping of the information to sequence E1 and E2 does not show the taxable position (i.e. 0.000179725). It only shows the amount in 92J. According to KR, they would like to provide the taxable position information in a structured field to avoid questions from their customers and to also avoid using the free format field. Jyi-chen queried if this scenario applies to all bonus issue in Korea or if it is on an exceptional basis. Mieko will check with KR NMPG on this.

Mieko also queried if there are any similar scenarios in APAC. Mai replied that there are markets in APAC (Malaysia and/or Taiwan) where you would have a tax rate per share. Yek Ling (HSBC) also confirmed that this is a common case in Taiwan and suggested checking with Taiwan on how it is

currently being announced. Mai also suggested looking into the volumes to see if it worth having a qualifier where there is tax applicable per share.

Actions:

Participants to check with their colleagues internally about Taiwan and Malaysia markets if they have similar scenarios and how they are currently being handled. Magdalene to also check with MY and TW NMPG.

Mieko to check with KR NMPG if the scenario applies to all bonus issue or if it is only on an exceptional basis.

3. Addition of sub code and date format on narrative qualifiers

Would the working group find adding a sub code and date format such as “:70E::ADTX//UPDT/20141106/XXXXXX” on narrative qualifiers useful?

This would mean the next update would be reflected as:

:70E::ADTX//UPDT/20141107/XXXXXXXXXX

:70E::ADTX//UPDT/20141106/XXXXXXXXXX

Another example would be on the Shanghai –HK Stock Connect, where the offshore CNY guidelines suggested including PSET in ADTX to make a distinction between offshore and onshore securities:

:70E::ADTX//PSET/HK/

The following points were noted:

On indicating updates in ADTX – this was first brought up by the UK & IE NMPG. It stems from the difficulty of distinguishing the latest narrative in replacement messages, and if it would be useful to have an update sub-code and date code to easily distinguish the latest narrative. Jyi-chen commented that this topic might have been discussed at the global SMPG level. He agrees that there may be value but questioned about the feasibility of having a market practice on this. Mai mentioned that currently, the new and latest narrative is most commonly added on the top or bottom of the old narrative but would like to find out if adding a sub code for updates would be useful to participants in APAC. Magdalene also mentioned that ADTX is a narrative field, so the adding of a structured code is most commonly done on the institution’s back office systems and not in the SWIFT message/network.

On the Shanghai-HK Stock Connect, the addition of PSET in ADTX – it was understood that there is an Offshore CNY Working Group guidelines document dated in 2012 to facilitate the STP processing and distinction between the CNY onshore and offshore markets. Mai queried if this document was widely distributed as she has not come across the usage of adding the PSET sub-code in :70E::ADTX, and it has also not been discussed in other market practice groups, and there are no MT change requests raised for this. The usage of 70E to make the distinction between offshore and onshore securities did not seem to be right too. Magdalene clarified that the guidelines provided by the RMB offshore working group to add /PSET/HK/ to the back of 70E, should actually be interpreted as adding fielded data – not structured codes and Mai pointed out that this narrative would cause messages to fail STP. Magdalene added that Kineth (SWIFT) is part of the OffShore CNY Working Group and could probably provide some background information around it. She will follow up and check with him. There were also discussions around the possibility of including PSET in the Sequence F (Party Field) but was also pointed out that it was not a proper solution to add PSET in a corporate action message with the intention to distinguish only one currency (between onshore and offshore).

In conclusion, the group agrees that this is a valid issue as with the RMB internationalization, there will be more markets listing RMB denominated stocks and a proper solution would be needed to address this.

Actions:

On adding a sub code and date format: Magdalene will forward this issue to the global SMPG for discussion.

Following Jyi-chen's comment that this issue might have been discussed at the global SMPG level, Magdalene has checked with Jacques and there are plans to discuss this and an open item has been created for discussion. Magdalene will follow up and provide an update to the APAC group on any discussions pertaining to this topic.

On the Shanghai-HK Stock Connect: Magdalene will check internally to find out if there are any other more recent Offshore CNY guidelines documents and if PSET is widely used and agreed upon. To also work with Jacques to see if this should be taken up to the global SMPG for further discussion.

4. Distributions

Example:

CITM has announced a distribution of 1.251 cents per unit for Cambridge units for the period 1 April 2014 to 30 June 2014 comprising distributions from the following:

Taxable income 1.022 cents per unit

Capital 0.134 cents per unit

Capital gains 0.093 cents per unit

Tax-exempt income 0.002 cents per unit

For all the above components Reinvestment Plan is available (DRIP), hence, the confusion here is should we distribute these components

- As DRIP events, if yes how do we differentiate the components such as Capital Gains and Capital Distribution as no DIVI qualifier is available these components?
- As 3 events CAPG, CAPD and DRIP, If yes how to convey the reinvestment plan options for CAPG and CAPD?

Thomson Reuters would like to propose the following to deal with it. Proposal:

Include event type codes CAPD and CAPG under DIVI qualifier in sequence D as well when a dividend amount comprises of sub-components like Capital return, Capital Gains etc.

Please find the example of announcements

http://infopub.sgx.com/FileOpen/24072014SGXCITAnnouncement_NoticeOfBookClosure.ashx?App=Announcement&FileID=308124

<http://infopub.sgx.com/FileOpen/1QFY1415%20Notice%20of%20BCD%20and%20Application%20of%20DRP.ashx?App=Announcement&FileID=306179>

The following points were noted:

This is specific to the Singapore market, especially in REITS. There were previously similar discussions in the SG NMPG where like the case in Korea, dividend was distributed with different tax components and the issue was to announce it as 1 or 2 events. As this is related specifically to the Singapore market, the issue will be forwarded to the SG NMPG for discussion.

Actions:

To forward this to the SG NMPG CA Sub-Group for further discussion.

5. AOB

There have been ongoing discussions on Proxy-Voting in Singapore – and the community is currently looking at the possibility of having SGX act as a central voting utility with discussions ongoing with SGX, Broadridge and the SG community. Jyi-chen queried if there are any similar process in the APAC region. Mai provided the information that electronic voting is in place with the CSDs in HK, TW and

KR, and for HK, this is done via the CCASS. Thailand is also starting to introduce electronic voting and it would be beneficial for Singapore to move into electronic voting too.