

FINANCIAL TRANSACTION TAXES (FTT):

A Global Perspective



BNY MELLON

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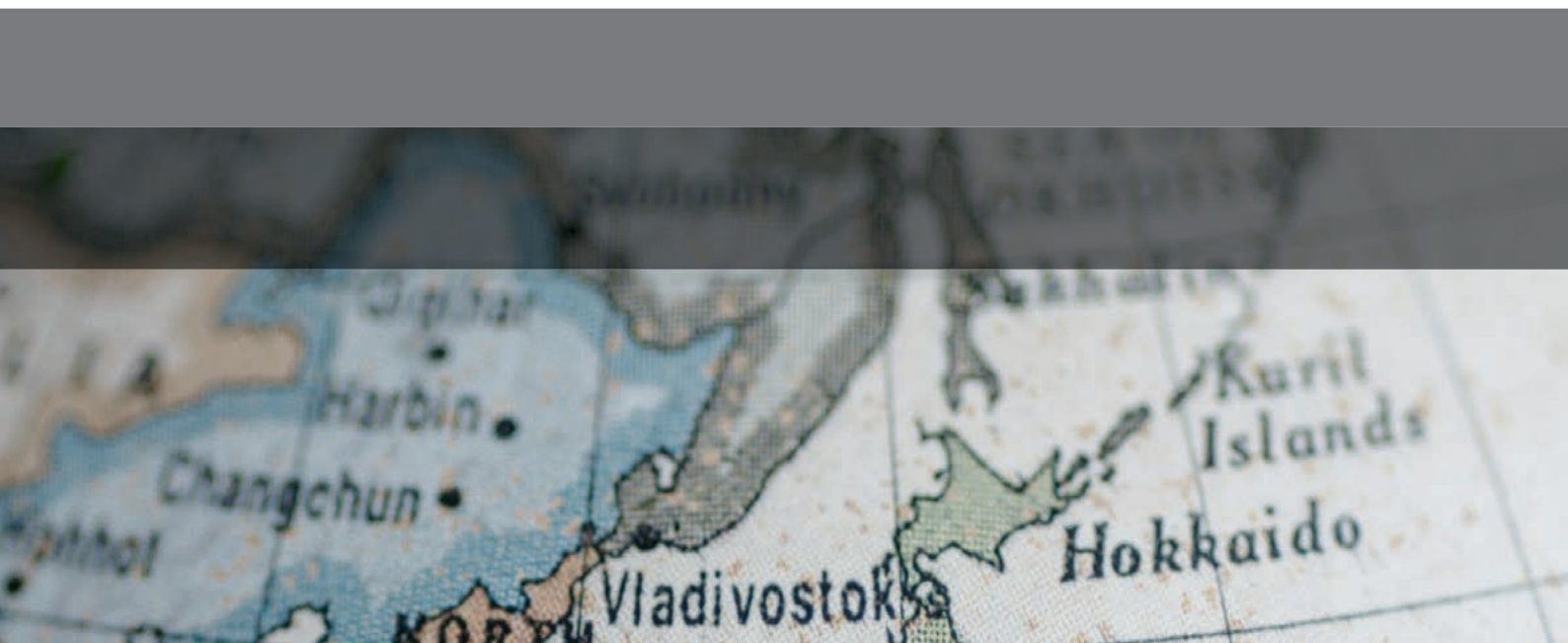
1. Introduction

Financial Transaction Tax (FTT) is a generic name for taxes that are levied on transactions such as the sale and purchase of some sort of financial instrument such as stocks, shares or FX transactions. Worldwide there are approximately 20 regimes for taxing securities transactions, not including bank levy or withholding tax.



















Financial transaction taxes have been on the regulatory and legislative agenda since the 2008 financial crisis. In the years that followed, several European and non-European countries have made proposals for national financial transaction taxes or have introduced such taxes.

Even with its 2013 proposal, the European Commission explained that there is a public desire “to ensure that the financial sector fairly and substantially contributes to the costs of the crisis and that it is taxed in a fair way vis-à-vis other sectors for the future, to dis-incentivise excessively risky activities by financial institutions, to complement regulatory measures aimed at avoiding future crises and to generate additional revenue for general budgets or specific policy purposes.”

BNY Mellon believes that no matter what the outcome is of any proposal from the European Commission, the matter of a financial transaction tax will continue to attract public and political attention. This article provides an overview of current implemented and proposed FTT legislation globally.



2. Different Types of Financial Transaction Taxes

| TYPES OF TAX | EUROPEAN COUNTRIES | NON-EUROPEAN COUNTRIES |
|----------------------------------|---|---|
| Transfer Tax |  Belgium ¹  Poland |  Philippines |
| Securities Transaction Tax (STT) | |  India  South Africa  South Korea  Taiwan |
| Financial Transaction Tax (FTT) |  Finland  France ¹  Italy ¹ |  Brazil  Venezuela |
| Proposed FTT |  Hungary ²  Portugal ²  Spain ² | |
| Stamp Duty |  Cyprus  Ireland  Malta  Switzerland  United Kingdom |  China  Egypt  Hong Kong  Pakistan  Singapore  Thailand  Trinidad & Tobago |

¹ These countries will switch to EU FTT when the Directive has been agreed.

² These countries will introduce a local FTT in case EU FTT is not agreed.

3. Established Local Financial Transaction Type Taxes in Europe

Several European countries have already enacted taxes on financial transactions. The persons subject to tax, the tax rate, and in-scope transactions are unique for each market. The following is an overview of how each European state has designed their respective FTT's.

Belgium

Since 2007, the Belgian government has imposed a stock exchange tax on the purchase and sale of secondary market securities (newly issued shares, however, are exempted). Over time this has been amended on several occasions. The scope of this tax includes transactions of stocks and bonds as well as the redemption of capitalisation shares of Collective Investment Funds (CIVs). For the tax to apply, the Belgian residence of financial intermediaries is a key element to determine whether a transaction is in scope, such that it has to be executed in Belgium via a Belgian intermediary and at least one party must be a Belgian resident.

With the adoption of the 2017 budget on December 22, 2016, by the Belgian parliament, the legislator expanded the scope of the tax to cover transactions executed by Belgian residents through non-Belgian financial intermediaries. Under the new regime, effective January 1, 2017, the tax rates remain the same, however the maximum amounts have been doubled. The tax rates applicable vary depending on the type of security purchased and sold:

- 0.09 % (up to a maximum of €1,300 per transaction) for transactions in bonds
- 0.27% (up to a maximum of €1,600 per transaction) for transactions in shares and certificates of certain contractual investment funds
- 1.32% (up to a maximum of €4,000 per transaction) for transactions in investment funds

Transactions exempt from the tax include those that financial institutions (such as banks, insurance companies, organisations for financing pensions and undertakings for collective investments) undertake on their own account, and also those made on their own account by non-resident taxpayers.

In 2003, the Belgian government proposed a law applying a 0.02% tax on the gross amount for FX transactions. This proposal, however, was dependent on the tax being implemented by the wider EU area and, as such, has not yet been implemented by the Belgian government.

Cyprus

Cyprus imposes stamp duty on written contracts relating to the purchase or sale of property or assets in Cyprus. Securities issued by Cypriot corporations, and agreements in relation to the sale of securities of Cypriot corporations, also fall within the scope of the duty.

The stamp duty rate is:

- 0.15% on transactions with amounts from €5,001 to €170,000
- 0.20% on transactions with amounts above €170,001

If no consideration is specified in the contract, a stamp duty of €35 is due. The maximum stamp duty payable on a contract is capped at € 20,000.

An agreement for the sale of a security listed on a recognised stock exchange is exempt.

Finland

In 1996, Finland introduced a 1.6% tax on the transfer of Finnish corporate securities and then from March 1, 2013, a 2% tax on the transfer of Finnish REIT/Housing companies. However, provided the transfer occurs on a qualified stock exchange, it is rendered exempt from tax.

Additionally, the tax is not imposed unless both parties to the transfer are not Finnish residents, unless:

1. The non-Finnish resident is a company whose assets consist of more than 50% immovable property in Finland, and
2. The Finnish securities transferred are REIT/Housing companies.

The tax base for the transfer is set at the price of the transaction including any payments made to third parties that are a condition of the sale.

France

The French Financial Transaction Tax (FFTT) was established in August 2012. The current tax rate is 0.3% for French equity trades and 0.01% on high frequency trading. In-scope transactions include:

- The acquisition of shares in specific French listed companies (listed companies with a capitalization of at least €1bn) and assimilated equity securities including American and European depository receipts (ADRs and EDRs) of in-scope companies
- High-Frequency-Trades (HFT)
- Credit Default Swaps (CDS) against EU sovereign debt
- Certain corporate actions

The following transactions are exempt from the transaction tax but are still reportable and must be declared as 'exempt' transactions.

1. Purchases linked to an issue of securities (primary market)
2. Transactions processed by a clearing house or central securities depository
3. Purchases linked to market making activities
4. Purchases linked to a liquidity contract
5. Intra-group transactions
6. Securities lending and repos
7. Acquisitions by employee mutual funds, employee open-ended investment funds or by employees directly
8. Acquisitions (including purchase of company shares) for employee saving schemes
9. Acquisitions of bonds that can be converted or exchanged into shares (note: conversion or exchange of these bonds into existing equities will be subject to FFTT)

The party accountable for reporting and paying the tax is typically the investment service provider on the buy-side of the transaction, the broker executing the purchase order or the custodian holding the shares for the buyer. If an intermediary is involved like Euroclear, the reporting disclosure is made by the member of Euroclear and the tax paid to the French authorities. The French FTT applies only once per transaction, so regardless of how many intermediaries there are in the transaction chain, there is no cascade effect.

With effect from August 1, 2014, the French Tax Authorities released an amendment to the guidelines. This amendment redefines the investment service provider as an accountable party for reporting and paying the tax when involved in a chain of intermediaries. The modification aims to provide a solution to practical issues raised by the market in identifying the appropriate accountable party and the reporting of the FFTT. The French Parliament has adopted the French Finance Act 2018, published in the Official Journal on December 31 2017. Article 39 confirms that intraday transactions have indeed not become subject to the French FTT from 1 January 2018, as was previously envisaged in the Finance Act 2017, Article 62.

Ireland

A transfer of stock or marketable securities of any company incorporated in Ireland is liable to a stamp duty at 1% of the consideration paid. In practice, this means that the duty mainly applies to transfers of shares in Irish companies and derivative financial instruments that relate to shares in Irish companies. If an electronic transfer takes place through the CREST system a 1% charge arises as well. The liability for the payment of the tax belongs to the purchaser/transferee.

The following are exempt from stamp duty:

- The transfer of shares valued under €1,000
- The transfer from one company to another as part of a corporate reconstruction or amalgamation
- Securities issued by the government or the EU
- The issuance, transfer, repurchase or redemption of units of a collective investment undertaking

On June 5, 2017, another exemption came into effect. The Minister for Finance announced that an exemption from stamp duty would be granted on the transfer of shares in Irish companies admitted to the Enterprise Securities Market (ESM) of the Irish Stock Exchange. This new provision brings the stamp duty treatment of Irish growth companies in line with the treatment of similar UK companies, following the abolition of UK stamp duty on transfers of shares in UK companies listed on the UK equivalent to the ESM, the Alternative Investment Market (AIM), in April 2014.

Italy

There are three categories of transactions considered in-scope for the Italian Financial Transaction Tax (IFTT):

1. Shares, participating financial instruments and other instruments representing those issued by Italian-resident companies with an average market capitalization greater than €500mn
2. Derivatives, if more than 50% of their underlying reference value relates to in-scope Italian shares, or is referenced to the value of in-scope Italian shares, including options, warrants, covered warrants and certificates
3. High-Frequency-Trades (HFT), as generated by a computer algorithm that automatically determines the decisions related to the relevant orders or metrics, where the ratio of orders amended or cancelled, in a time frame shorter than half a second exceeds 60% of total orders entered

The rate of tax applied differs depending on the type of transaction:

- 0.02% on high frequency trades
- 0.10% on exchanged traded equities
- 0.20% on over-the-counter equities

Note that for equity trades, the taxable base is calculated using the net daily balance of the transactions of the final counterparty.

There are several exemptions granted for IFTT withholding, including:

- Market-making activities
- Transactions to ensure the liquidity of newly issued shares
- Purchases by pension funds and similar entities
- Transactions between related parties
- Transactions on qualifying “ethical” or “socially-responsible” financial products
- Transactions with the EU, ECB, Central banks of EU member states or institutions established by international agreements, and executed by Italy
- New issuance of shares, including upon conversion of bonds
- Transfers by way of inheritance or donation
- Transactions of temporary acquisitions of securities (e.g., repos and securities lending)

There are two types of intermediaries responsible for the collection and payment of the IFTT.

A. Intermediaries defined as:

- Italian banks and investment companies
- Non-resident financial intermediaries authorised, in their state of residence, to undertake investment activities and financial services that are equivalent to the following:
 1. Proprietary trading (Article 1(5)(a) of TUF)
 2. Execution of orders on behalf of clients (Article 1(5)(b) of TUF)
 3. Receiving and transmission of orders, with the exclusion of activities aimed at putting two or more investors in contact (Article 1(5)(e) of TUF)

B. Other persons responsible for the payment of the tax:

- Management companies (whether resident within or outside of Italy) undertaking collective or portfolio investment activities, in respect of transactions performed within the investment activity, where there are no other intermediaries involved in the execution of those trades
- Fiduciary and Trust companies (whether resident within or outside of Italy), in respect of transactions performed within their trust management activity, where there are no other intermediaries involved in the execution of those trades
- Public Notaries

Malta

A 2% stamp duty tax is chargeable on the transfer of marketable securities such as any share, stock, debenture, bond or interest in any company. The tax is imposed on transfers that are executed in Malta. Both the transferor and transferee are jointly liable to pay the tax.

Exemptions include:

- Shares listed on the Malta Stock Exchange
- Transfer of shares by non-residents
- Marketable securities acquired or disposed of by collective investment schemes
- Transfers to persons holding an investment services license
- Transfers to international trading companies
- Companies where more than half the ordinary share capital, voting rights and rights to profits are held by persons who not resident in Malta and are not owned or controlled directly by persons resident in Malta, and such company has been determined by the Commissioner of Inland Revenue as having the majority of its business interests outside Malta
- Companies which prove to the Commissioner of Inland Revenue that they carry on, or intend to carry on, business to the extent of more than 90% outside Malta
- Transfer of shares between companies within the same group
- Transfer of local securities if the transfer is made via merger, de-merger or restructuring within the scope of a group of companies

Poland

Since September 9, 2000, Poland has applied a 1% transfer tax on certain sales or exchanges of property rights. The definition of property under the law includes securities, OTC transactions and derivatives (both domestic and foreign) where the exchange occurs in Poland. Exempt from tax are Polish treasury bonds and bills, bills issued by the National Bank of Poland, and some other specified securities as well as securities lending transactions. Additionally, an OTC transaction is exempt from the tax, if one of the counterparties to the transaction is an entity that is registered in Poland for VAT purposes.

The 1% stamp duty is calculated on transactional value, with the buyer responsible for calculation, payment and submission of the tax form to the tax office.

Transactions taking place at a stock exchange or via an investment firm are exempt from the tax and both the declaration and payment of the tax is the responsibility of the buyer.

Following the Polish general election in October 2015, Poland considered introducing an FTT on shares and derivatives based on their notional value. The draft bill started its legislative process but with the parliamentary session of December 2015, Poland dropped its plans to institute a tax on financial transactions, instead deciding to tax bank and insurer assets.

Switzerland

Switzerland imposes a transfer tax on both domestic and foreign securities when one of the parties is a Swiss Securities Dealer. The transfer of legal ownership on taxable securities (both equities and bonds) with the involvement of a Swiss Securities Dealer is taxed at a rate of 0.15% for Swiss securities, or 0.3% for foreign securities. There are some exceptions, with money market instruments, for example, not subject to the transfer tax.

Transactions in Eurobonds and bonds denominated in a foreign currency are also exempt, as is securities trading by brokers for their own account. The following transaction types are also exempt:

- Initial purchase of shares in resident companies, including those purchased through a bank or a holding company (note that there is a separate issuance tax in some cases)
- Transfer of an option to acquire shares
- Redemption of securities for cancellation
- Initial purchase of bonds issued by foreign debtors and shares in foreign companies not denominated in Swiss currency
- Transfer of foreign money market papers
- Transfer through security brokers of foreign bonds whether in Swiss or foreign currency between two foreign parties and
- Transfers due to intra-group reorganizations

There are also a large number of tax exempt investors i.e., Swiss and foreign collective investment schemes, foreign occupational pension funds and schemes and foreign social security institutions.

United Kingdom

The UK imposes two stamp duty taxes that impact financial transactions.

The first is stamp duty which applies to instruments that transfer certificated shares (i.e., shares that are traded off exchange through physical transfer) at a rate of 0.5%. The transfer is generally processed with a stock transfer form.

No stamp duty is charged on:

- Share transfers valued under £1,000
- Property that passes to the purchaser by delivery
- Transfers of UK government securities and other non-convertible loan stock
- Transfers between associated UK or foreign companies (subject to certain conditions)
- Transfers under which a beneficial interest does not pass
- Eligible AIM (Alternative Investment Market) and High Growth Segment securities
- Gifts

The second is a Stamp Duty Reserve Tax (SDRT) which applies to the oral or written agreement to transfer chargeable securities (usually electronic paperless share transactions in CREST) at a rate of 0.5%. Included in the definition of such securities are:

- Shares of a U.K.-incorporated company
- Shares of a foreign company with a register in the U.K.
- Share purchase options
- Subscription rights
- An interest in shares, such as an interest in the proceeds earned from selling shares

Exemptions from SDRT are available for:

- Transfers of listed securities to intermediaries who are members of a stock exchange in an EEA, or members of a recognized foreign stock/option exchange
- Stock lending and repos of listed securities on exchange
- Transfers of units in exchange traded funds
- Eligible AIM and High Growth Segment securities
- Transfers to charities

Stamp Duty Reserve Tax (SDRT) at 1.5% will apply if a transfer of shares into some 'depository receipt schemes' or 'clearance services' takes place. This is when the shares are transferred to a service operated by a third party (e.g., a bank). The shares can then be traded free of Stamp Duty or SDRT, however not all schemes function similarly, and sometimes the higher rate is not charged, leading to normal payment of Stamp Duty or SDRT.

4. European Countries With Proposed Financial Transaction Taxes (FTT)

The following countries have drafted legislation for their own FTT.

Hungary

The Hungarian government has approved a common framework for a Hungarian financial transaction tax High-Frequency-Trades (HFT). The tax applies to the following transactions in Hungarian securities accounts:

- The purchase and sale of equities, bonds, and derivatives of both Hungarian and non-Hungarian issuance
- Securities lending transactions
- Certain corporate actions

The tax rate specified is 0.1% for securities and 0.01% for derivatives.

The tax will become effective the first day of the year following the approval of an overall EU FTT.

Portugal

The Portuguese Parliament has approved general parameters for an FTT but a tax has yet to be implemented by the Portuguese government. The proposed tax covers the sale and purchase of the following instruments:

- Shares
- Bonds
- Money markets
- Participation units
- Derivatives and structured financial products

Under the proposed law, the expected FTT rates would be:

- 0.3% on equities, bonds, money markets, participation units and derivatives
- 0.1% on high-frequency transactions

At the time of writing, there is no proposed timeline for the implementation of a Portuguese FTT.

Spain

In 2012, the Spanish Ministry of Finance announced a draft bill for a Spanish financial transaction tax (SFTT), which applies to the following:

- The transfer of listed shares of Spanish companies above a certain, unspecified market capitalisation
- Certain high-frequency transactions
- Credit default swaps against EU sovereign debt when the beneficiary is not the holder of the debt

The bill also outlines several exemptions to the tax including:

- The purchase of new shares via an IPO
- Transactions carried out by clearing houses acting in that capacity or by a central custodian
- Certain market-making transactions
- Intra-group transfers of shares as part of a restructuring transaction
- Certain securities lending and repurchase transactions
- The acquisition of convertible bonds

The Spanish government have put on hold plans to move forward with an SFTT, pending progress on the wider EU FTT.

EU FTT

In February 2013, the Commission issued a proposal for a common set of rules for a Council Directive that would in effect create a European Financial Transaction Tax (EU FTT) for the 10 Member States that had agreed to participate in the Enhanced Cooperation Procedure.

According to the current text of the proposal, the tax would be levied at low fixed rates on certain transactions involving financial instruments such as shares, bonds and derivative contracts.

A minimum of nine EU Member States must unanimously agree on the proposed tax.

Parliamentary time must then be scheduled to convert the Directive into domestic law within each Member State. Collection and reporting mechanisms will need to be considered and time should be allowed for system and process changes at both an industry and financial infrastructure level. The target implementation date of

1 January 2017 has not been met and still depends on the political commitment of the larger Member States.

The Proposal allows for some customisation of the EU FTT on a country-by-country basis. Although it outlines a minimum tax rate for the EU FTT, each participating Member State will be allowed to set their respective rates above the given minimum of 0.1% for equities and bonds, and 0.01% on derivatives.

Once enacted, the Directive would require participating Member States to cease imposing or introducing similar transaction tax regimes, and instead apply the EU FTT. However, existing transaction taxes or stamp taxes applicable in non-participating Member States may continue to remain, giving concern that potential “Double Taxation” could result.

The Member States of the Enhanced Cooperation Procedure (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain) are in continued discussions to refine the scope, implementation date and operational framework of the Proposal. Areas under scrutiny include whether the EU FTT should apply to equities and some derivatives, or to all financial transactions, and whether the tax should be imposed based on the residence of the investor and/or the investments’ country of issuance.

5. Established Financial Transaction Taxes (FTT) Outside Europe

In the past and up to now, many countries have experimented with a wide range of transaction taxes or tried to introduce such kind of tax. Even the U.S. proposed up to 14 different financial transaction taxes through the House of Representatives and the Senate; but all were met with stiff resistance. Some countries continue to levy such taxes today and these are described as follows:

Brazil

The tax on financial operations (Imposto sobre Operacoes Financeiras, IOF) is regulated under Decree 6, 306/07. It was created to replace the CPMF (Provisional Contribution on Financial Transactions) tax, abolished in 2008. The tax is levied on credit, exchange, insurance and securities transactions executed through financial institutions. It includes intercompany loans and gold transactions. The tax rate varies depending on the taxable event and nature of the transaction.

Modifications were made in May 2016 (Decree 8, 731), which introduced changes to the trigger tax on currency exchange transactions as well as transactions in bonds and securities. For IOF, on the spot-purchase of foreign currencies in cash (IOF-FX) a rate of 1.10% is now imposed, increased from the prior IOF rate of 0.38%.

For foreign loans the IOF-FX is zero rated. However, analysis on a case-by-case basis is required because the changes concerning foreign loans and debt funding are related to the liquidation and/or capitalization period (maturity terms) of foreign loans. Currently, the IOF-FX levied on the inflow of funds to Brazil related to foreign loans with a maturity of up to 180 days is 6%, but for long term loans, the IOF-FX is zero-rated.

For IOF on securities a new subsection has been added to the Decree which includes repurchase transactions between financial institutions or other entities authorised by the Brazilian Central Bank and debentures issued by entities of the same economic group. Both are subject to an IOF-Securities rate of 1% per day on the value of the redemption, transfer or renegotiation, based on the investment terms.

The Decree also established that the conversion of foreign direct investment into investment in stocks or shares traded on the stock exchange are subject to IOF at a rate of 0%.

China

On November 5, 2016, the Ministry of Finance (MOF), the State Administration of Taxation (SAT) and the China Securities Regulatory Commission (CSRC) jointly issued a Notice on specific tax treatment, Caishui (2016) No: 127 (Circular 127), for the Shenzhen-Hong Kong Stock Connect pilot program.

In order to facilitate cross-border investment activity preferential Chinese tax treatment has been put in place, which provides stamp duty measurements for share transfer transactions in both directions (i.e., share trades on the Shenzhen Stock Exchange (SSE) and on the Hong Kong Stock Exchange (HKSE)). Transactions in Chinese A-shares will be taxed on 0.1% for the seller. Exemptions are applicable only for certain stock borrowing activities, designed to cover short sales.

This treatment also covers transactions relevant to Shanghai-Hong Kong Stock Connect and transactions by foreign investors in SSE and HKSE shares.

Egypt

Egypt already imposed a stamp tax in May 2013 on buy/sell transactions on the stock market but suspended it in July 2014. On June 18, 2017, Law No. 76 of 2017 was ratified by the Egyptian President. It introduced a stamp duty tax on the total value of purchases and sales of securities of all kinds—whether listed or not, no matter whether the securities were Egyptian or foreign, and without deducting any costs. It is levied on both the buyer and the seller of shares traded on the Egyptian Exchange (EGX) over three phases. For the first year a tax of 0.125% is applicable (effective from June 19, 2017), which will rise to 0.15% from June 1, 2018 and to 0.175% in the third year of implementation (June 1, 2019).

The stamp tax will be applicable on acquisitions that exceed 33% of companies' shares. Sellers and buyers will both bear a tax of 0.3% each.

Misr for Central Clearing Depository & Registry Company (MCCDR) or any other entity responsible for the settlement of transactions is liable for withholding, deducting and remitting the tax to the tax authority.

Hong Kong

With the Stamp Duty Ordinance (Cap. 117) Act, certain types of documents, immovable property, stocks and bearer instruments and transfers of shares of companies which are either incorporated in Hong Kong, or listed at the stock exchange, are levied at fixed or ad valorem rates. Since 1993 stamp duty has been levied on contract notes for the sale or purchase of any Hong Kong stock, at a current rate of 0.1% on the consideration amount on each sale and purchase note. It is calculated and charged on the market value of a transaction, if this is greater than the actual consideration.

Relief is available for transfers of shares or properties between 90% group members, transfers of shares under stock borrowing and lending transactions and regulatory capital securities issued by financial institutions in compliance with the Basel III capital adequacy requirements.

As of February 13, 2015, the transfer of Hong Kong shares or units of ETFs are no longer subject to stamp duty.

Hong Kong has signed certain tax treaties with Italy, leading the Italian Minister of Finance to publish a new list of States and territories that have an adequate exchange of information for income tax purposes, which includes Hong Kong. The enactment of the new list means that equity and derivative transactions executed on the Hong Kong exchanges (e.g., in Prada shares) are now able to qualify for the reduced “on exchange” IFTT rates.

India

The Indian government imposes a securities transaction tax on the purchase and sale of shares at a recognized stock exchange, which was introduced in 2004. It applies also to bonds, debentures, derivatives, units issued by any collective investment scheme, equity-based government rights or interests in securities and equity mutual funds.

It is not applicable to commodities, currency or off-market transactions. Transactions such as the conversion of securities into shares are, however, exempt. Shares of a company that are acquired whilst privately-held, but which is later listed, are also exempt on sale.

The tax is payable by the seller except for an exercise of an option in securities it would be the purchaser. The tax rate applicable varies depending on the following transactions:

- Sale of equity shares or units of equity-oriented mutual funds through stock exchange: 0.001%
- Sale of futures in securities: 0.01%
- Sale of options in securities: 0.05%
- Sale of a unit of an equity-oriented fund to a mutual fund: 0.001%
- Sale of an option in securities where the option is exercised: 0.125%
- For equity transactions that are delivery-based: purchase and sale is 0.1% of the turnover and for intra-day transactions, purchase is nil and sale is 0.025% of the turnover

Malaysia

Malaysia imposes a stamp duty on a wide range of documents at varying rates, such as affidavits, contracts, receipts and securities.

The rate of stamp duty for the sale of shares and stocks of marketable securities transactions is 0.3% whereas for loan agreements the rate is 0.5%.

Transfer of assets between associated companies is exempt from stamp duty.

Pakistan

With the Stamp Duty Act of 1899, Pakistan imposed tax on property, the purchase of shares of a public company listed on a stock exchange and the issuance and transfer of shares. With the Finance Bill 2015, the government inserted a new clause to the Stamp Act adding a tax for the transfer of shares from one Central Depository Company (CDC) account to another CDC account. The rates are as follows:

- 0.5% to 1.5% of the face value for the issuance and transfer of shares
- 0.01% of the purchase value for shares of public companies listed at a stock exchange
- 0.01% of the face value of shares on transfer from one CDC account to another

Philippines

In the Philippines a documentary stamp tax (DST) is imposed under the National Internal Revenue Code. The issuance and transfer of shares is taxed at a rate of 0.6% of 1% of the taxable base whereas the documentary stamp tax on the sale or transfer of shares which are listed at the stock exchange is taxed at 0.75% based on the par value of the shares.

Based on the issue price of debt instruments, the applicable documentary stamp tax rate is 1.5% of the par value, but if the term is less than one year, it is applied in a proportional amount related to its term in days. Collection and payment is required by the selling broker on behalf of the client. Trading in the secondary market remains exempt pursuant to the Philippines Tax Code.

With the Revenue Memorandum Circular No. 95-2017 of November 2017, the Philippines Bureau of Internal Revenue (BIR) provided guidelines on the tax treatment of government securities repurchase programs (GS Repo Programs). Amongst others, the circular provides that GS Repo Programs are exempted from Documentary Stamp Tax.

Singapore

Stamp Duty is charged on documents related to property, mortgage, stocks and shares. The rate varies with the type of document and transaction value. For shares purchased, the value of the shares transferred is taken to be the average price on the stock exchange as of the date of documentation. If no average price is available, the latest average price of the shares can be used. The stamp duty rate for the transfer of shares is 0.2% of the purchase price or the value of the shares.

South Africa

The Securities Transfer Tax (STT) was implemented in July 2008 under the Securities Transfer Tax Act, No. 25 of 2007, together with the Securities Transfer Tax Administration Act No 26 of 2007. Therein the tax rate of 0.25% is levied for transfers of shares in a company or member's interest in a related corporation. STT applies to the purchase and transfer of listed and unlisted securities.

Exempt from STT are transfers of securities where no change in beneficial ownership takes place or where the liability of the tax is less than ZAR 100 in respect of the transfer of all securities during a month.

Previously, the outright basis of an equity collateral transfer was considered as a legal sale, thus attracting STT. Effective from January 1, 2016, outright transfers of collateral are exempt from STT, with the transferee responsible for ensuring that the collateral positions do not remain outstanding for more than twelve months, otherwise STT becomes due.

South Korea

The Securities Transaction Tax (STT) is imposed on the transfer of stocks of a corporation or interest. The Presidential Decree prescribes the flexible rates of 0.15% for shares traded on the Korea Stock Exchange and 0.3% for shares traded on the Korean Securities Dealers Automated Quotations (KOSDAQ) or the Korea New Exchange (KONEX).

For unlisted shares or interest a rate of 0.5% is imposed. The same rate applies on the transfer of shares or interest, but the government is authorized to adjust the tax rate in certain circumstances.

OTC transactions settled outside the KOSDAQ are taxed at 0.5%.

STT is applicable to both residents and non-residents but is payable by the seller only. The Korea Securities Depository is responsible for calculation, withholding and payment of it to the South Korean Tax Authorities.

Taiwan

The trading of shares issued by companies, corporate bonds and other securities offered to the public with government approval is subject to securities transaction tax in Taiwan.

Securities exempt from tax include: bonds issued by the government, REITs and bonds with warrants.

The tax is levied on the seller of securities, paid and withheld by the collecting agents (i.e., broker, transferee). The tax rates are as follows:

- A reduced tax rate applies as of 28 April 2017, for transactions on the purchase and sale of listed or tradable shares or share certificates embodying the right to shares issued by companies, new shares from convertible bonds and preferred shares with warrants. The new tax rate of 0.15% will be considered again for a possible further extension after one year.
- 0.1% of the transaction price of corporate bonds and other financial bonds government approved such as certificates issued by securities investment trusts.
- 0.1% for any other security approved by government (i.e., depository receipt, call/put warrant, beneficiary certificate).

There is also a Futures Transaction Tax levied on both sides of the futures with varying rates. The tax is based on the transaction price of the contracts and/or the premium paid. These are:

- 0.000125% on 30 days interest rate futures contracts
- 0.000125% on 10 years government bonds futures
- 0.002% on stock index futures contracts
- 0.00025% on other futures contracts (i.e., gold futures)
- 0.1% on option contracts or option contracts on futures based on the premium paid

Thailand

Stamp Duty in Thailand is imposed on many documents with varying rates as set out in the Revenue Code. Documents subject to stamp duty include transfers of shares and debenture certificates with a rate of 0.1% of the transfer value without a specified upper limit. Loan documents are subject at a 0.05% rate with an upper limit of 10,000 Baht.

Exempt from payment of stamp duty is the transfer of Thai government bonds and transfers of share, debenture and certificate of debt issued by a co-operative for agriculture or the Bank of Agriculture.

The transferor has the liability to pay the stamp duty, but for transactions executed offshore the liability is with the first holder of the share transfer document in Thailand.

Trinidad & Tobago

The sale or the transfer of shares is applicable for stamp duty under the Stamp Duty Act of Trinidad & Tobago. The amount depends on whether the company is registered on the local stock exchange. A valuation report has to be provided by an independent service provider.

The stamp duty charged is the greater of 5% of the value of the shares transferred or 5% of the consideration given, where the company is registered on the stock exchange. Where the company is not registered on the stock exchange, the stamp duty charged is the greater of \$5.00 per \$1000 of the consideration given or \$5.00 per \$1000 of the value of the shares transferred.

No stamp duty applies to shares traded at the local stock exchange.

Venezuela

On December 30, 2015, a new Financial Transaction Tax (FTT) law was enacted in Venezuela by Decree No. 2.169. The law was published in the Official Gazette No.6.210 with an effective date of 1st February 2016. The new tax of 0.75% is applicable to so called 'large financial transactions' taking place in Venezuela. The tax applies to legal persons appointed as special taxpayers by the Venezuelan tax authorities, making payments through Venezuelan banks or financial accounts or paying debts outside of the financial systems. The tax will also apply to legal persons who are legally related to special taxpayers and to legal persons or individuals making payments on behalf of special taxpayers. The tax is not deductible for Venezuelan income tax purposes.

The following transactions will be subject to Venezuelan FTT:

- Debits to bank accounts, correspondent accounts, trusts or demand deposits of any kind, liquid assets funds, fiduciary, and other financial market funds or any other financial instrument, in banks and other financial institutions
- Transfers of checks, securities, deposits in custody paid in cash and any other tradable instruments, after their second endorsement
- Acquisition of cashier's checks
- Active transactions between banks and other financial institutions
- Securities transfers between different beneficial holders
- Payment of debts without financial system mediation
- Debits to accounts in private organized payment systems not operated by the Central Bank of Venezuela
- Cross-border payments

State-issued securities, certain tax payments and transfers of funds between accounts of the same beneficial owner are exempt from taxation.

The Decree exempts the following transactions:

- The first endorsement made on checks, securities, deposits paid in cash and any other financial instrument
- The transfer of funds by the account holder between its accounts at a bank or financial institution incorporated and domiciled in the Bolivarian Republic of Venezuela (this exemption is not granted for accounts with more than one holder)
- Debits generated by the purchase, sale and transfer of the custody of securities issued or certified by the Republic or the Venezuelan central Bank, and of securities traded in the agricultural market and the stock exchange

On January 22, 2016, the Administrative Order No. SNAT/2016/0004 was published in the Official Gazette No 40.834 by the tax authority. Banks and financial entities were appointed as FTT withholding agents and a technical instructions manual was established. The FTT withholding agent therefore has to adhere to the following regulations:

- Daily reporting of FTT transactions at the close of business
- Payment and filing of the FTT amounts to the tax authorities
- Weekly filing of detailed information return of FTT withholdings applied (every Sunday)

6. Comments

As shown by the above summary of established and proposed taxes, the taxation of financial transactions is not a new phenomenon.

BNY Mellon believes that financial transaction taxes will continue to be on the agenda for the foreseeable future.

But beyond detailed questions of implementation, there are broader questions. What is the right way to tax the financial sector? Does such a tax fit into the broader regulatory agenda?

In the European context, there is also the question of whether any FTT is compatible with the single market; this question applies to both individual, national FTTs, and to the current proposal for an EU FTT, as this EU FTT will probably be applied in only 10 of the 28 Member States.

Among the priorities of the European Commission is the encouragement of long-term financing. In this context, the introduction of a limited-scope FTT that covers only equities, and possibly some equity-linked derivatives, would appear to be anomalous.

Another of the priorities of the European Commission is to introduce a “Capital Markets Union” within all twenty-eight Member States. It seems highly likely that any work in this area will include work on the taxation of financial activities and of the financial sector.

With the current open issues regarding treatments of pension funds or whether or not to include intra-group transfers for taxation, tax rates and collection methods, the looming Brexit negotiations have led governments to grow wary of furthering this agenda at present.

It is, therefore, challenging to predict where the journey will lead for any FTT. The likely direction will still be the subject of considerable ongoing debate globally as well as on a European level.

Nevertheless, FTT together with other policy instruments could offer an attractive mechanism to politicians to help reform the global financial system.

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1/2018



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