

G30 Global Clearing and Settlement - A Plan of Action

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Recommendation 8 - Tax Relief Arrangements

Chris Gilbert/JPMorgan Investor Services - Tax Product Management

Presentation Content

- Background
- Current global tax relief arrangements
- Investment/intermediary structure
- Concepts of proposed tax relief model
- Model mechanics
- Further detail to be agreed
- Next steps
- Questions/comments/suggestions

Background

- G30 issued “Global Clearing and Settlement - A Plan of Action” - January 2003
- Recommendation 8 considered, *inter alia*, need to automate/standardize tax relief arrangements:
“Market participants and public authorities should work together to minimize the administrative costs to each party involved in tax relief arrangements through standardization and automation of procedures and communication of information and through the use and acceptance of electronic data and documentation”
- Proposed tax relief model developed - 2004
- Endorsed by ISSA/posted to website - February 2005

Current Global Tax Relief Arrangements

- Current arrangements vary considerably
- Relief at source/tax reclaim
- Country-specific documentation in certain cases
- Some countries already operate optimum relief at source arrangements
- Practically impossible to secure relief in other countries (at source and/or by tax reclaim)
 - excessive documentation requirements (e.g. notarization), lead times for providing documentation, imposition of local advisors, inordinate tax refund delays etc.

Investment/Intermediary Structure

- Considerable variances in investment structure
- One or more intermediaries may be interposed between investor and security issuer
- Intermediaries may be based in investor country, investment country or third country
- Withholding responsibility may vary according to investment structure and investment country

Concepts of Proposed Tax Relief Model

- Designed to fully satisfy G30 Criteria by:
 - standardizing tax relief arrangements
 - providing platform enabling automation of associated procedures and electronic communication of associated data
 - providing opportunity to minimize associated costs
- Based on optimal relief at source methodology
- Builds on existing technology and best practices
- Phased approach, targeting enlightened public authorities and enabling credentials to be proved before wider roll out as “global standard”

Model Mechanics - Information Delivery

- Investor completes declaration confirming (i) identity, (ii) residence & (iii) generic category
- Declaration provided to security issuer/agent or any authorized intermediary acting for investor
- If applicable, authorized intermediary passes tax rate information to security issuer/agent or any upper tier authorized intermediary by means of:
 - segregation of assets into tax rate pools; or
 - tax rate breakdown of income entitlementson books of security issuer/agent or upper tier authorized intermediary

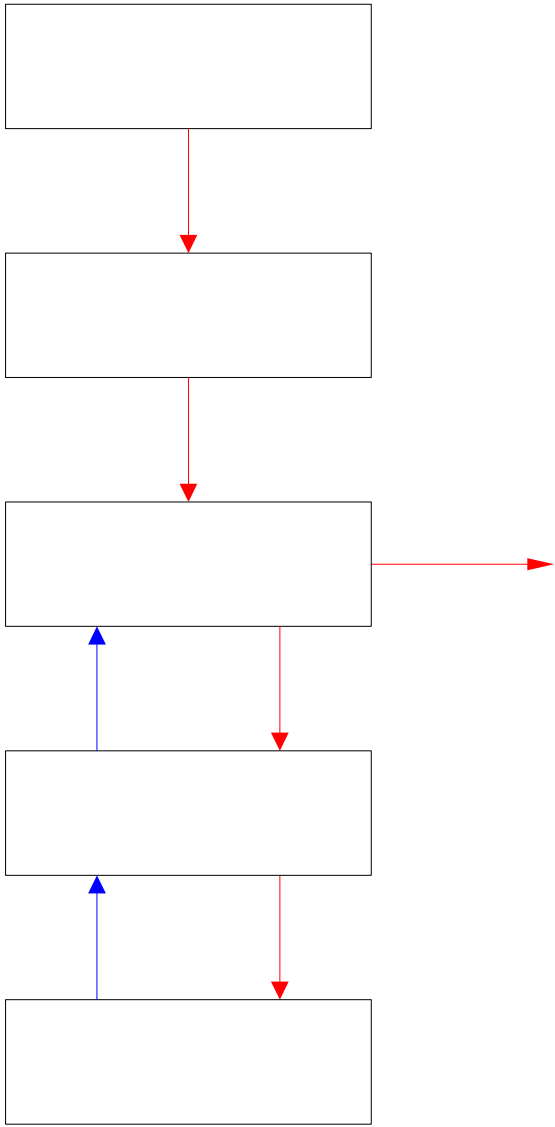
Model Mechanics - Tax Deduction/Relief

- The security issuer/agent or authorized intermediary with tax deduction responsibility applies appropriate reduced tax rates based on:
 - investor declaration
 - authorized intermediary tax rate information
- Where appropriate, any domestic tax relief may be provided to eligible investors based on information contained within declaration or tax rate information
- Tax deduction responsibility is unaltered by model

Model Mechanics - Authorization/Review

- Intermediaries authorized by local tax authority
- Issuer/agent may also qualify for authorized intermediary status
- Authorization based on standard criteria
- Authorized intermediaries subject to periodic review
- Review primarily system based, but more granular information may be provided where necessary

Illustrative Example - Applicable to France



Further Detail To Be Agreed

- Format/content/validity period of investor declaration and handling changes in investor eligibility (e.g. change of investor status or new treaty)
- Possible need for residence certification from investor's tax office
- Possible need for up-front agreement of eligibility for certain investor categories (e.g. CIVs)
- Electronic delivery options for investor declaration and tax rate information
- Intermediary authorization criteria and review arrangements
- Possible need for "back up" tax reclaim system

Next Steps

- Model intended to stimulate industry debate in terms of whether:
 - standard tax relief model is desirable; and if so
 - the form that model should take
- Comments now sought in respect of proposed model
 - all comments/suggestions welcomed (positive or otherwise)
 - contact details contained within paper
- ISSA likely to analyse responses and agree forward action 2Q2005 - 3Q2005

Proposed Tax Relief Model

Questions, comments, suggestions..