

CLIENT COMMUNICATION: FRENCH FINANCIAL TRANSACTION TAX

This communication aims to confirm the process established and followed by Northern Trust for addressing the requirements of the French Financial Transaction Tax (FTT) as it relates to handling client transactions.

BACKGROUND

The French FTT was introduced in 2012 to address the growing need for increased tax revenues across the Eurozone and to respond to calls by various institutions for a “fair contribution by the financial sector.” The French FTT is essentially a tax on purchases of French chargeable securities and other equity instruments such as American depository receipts (ADRs). As it is applied to each transaction without regard to the residence of the counterparties involved, it impacts financial institutions worldwide.

The French FTT imposes an obligation on investment service providers (ISPs) i.e. brokers that execute client orders for purchases of chargeable securities to report, collect and pay the tax to the French tax authority through the Euroclear mechanism. In rare instances where taxable acquisitions are made without the involvement of an ISP, the purchaser must provide the necessary information for the assessment and payment of the tax, which is then collected by the custody account keeper.

KEY FACTS

- Brokers have an obligation to deduct the tax on market transactions.
- The tax has been in force for chargeable securities since 1 August 2012.
- On transfers of quoted French equities with market capitalisation exceeding EUR1bn, the applicable tax rate is 0.2%. The list of French companies whose securities fall in scope is published annually by the French authorities.
- ADRs which give access to French chargeable securities have been within scope since 1 December 2012.
- Penalties are assessed for failure to report, late payment and non-payment of the tax. Fines range from a nominal EUR150 for erroneous declarations to a substantial percentage of the tax owed (20% or 40%) for late and missing payments.

Exemptions apply to:

- Purchases linked to an issue of securities (primary market transactions).
- Transactions processed by a clearing house or central securities depository (CSD).
- Purchases linked to market-making activities (“Market maker exemption”).
- Purchases linked to a liquidity contract.
- Certain intra-group and restructuring transactions.
- Securities lending and repos.
- Acquisitions by employee mutual funds and open-ended investment funds or by employee directly.
- Acquisitions and buybacks of securities in an employee savings scheme.
- Acquisitions of bonds that can be exchanged or converted into shares. The actual conversion of those instruments into chargeable French securities is subject to tax.

NORTHERN TRUST’S PROCESS FOR ADDRESSING THE FTT

The process described herein applies to transactions not executed via an ISP/ broker in which case the custodian has a role in reporting and collection of the tax. An overview of the key steps and responsibilities is set out below:

ENTITY	RESPONSIBILITY
Northern Trust client	Completes a declaration of eligible transactions and sends it to Northern Trust along with any associated payments. The declaration is due by the close of business on the second calendar day of the month following the month when the transaction was effected. If Northern Trust does not receive a declaration, transfers of assets are treated as NOT subject to FTT payment or reporting. Please note that, in case of late, missing and erroneous declarations penalties and fines are incurred by the taxpayer.
Northern Trust	Matches clients declarations and payments and transmits them to the Northern Trust’s sub-custodian in France, BNP Paribas Paris.
Local sub-custodian (BNP Paribas Paris)	Files declarations and payments with Euroclear France as the collecting agent.
Euroclear France	Manages additional controls over declarations and submits declarations and payments to the French tax authorities.
French tax authority	Evaluates the accuracy and validity of the declarations and payments.



IDENTIFICATION OF TRANSACTIONS IN SCOPE

Northern Trust does not assist clients in the identification of transactions in scope of the French FTT. Additionally, Northern Trust does not maintain and distribute a list of ISINs in scope of French FTT. We suggest that clients with detailed technical queries seek independent professional advice from legal and tax advisers. Custody clients who require Northern Trust to report and/or pay French FTT on their behalf are invited to complete a declaration form and submit it to financial_transaction_tax@ntrs.com. Declaration forms are due by close of business on the second day of the reporting month, following the month in which the transaction was effected.

TRANSACTION PROCESSING AND REPORTING

Northern Trust processes the transactions in accordance with client/institution instructions, collects the FTT liability and submits a monthly declaration to BNP Paribas. BNP Paribas then debits the Northern Trust account and forwards the payment and transaction details to the French Tax authorities.

CORPORATE ACTIONS

In the case of corporate actions, Northern Trust receives a notification from the agent regarding the FTT eligibility of a particular event (e.g. exempt or eligible) and its FTT classification (e.g. reportable or reportable and chargeable). Northern Trust notifies the client/institution of the FTT eligibility and commences the transaction processing and reporting process described above.

INDEPENDENT ADVICE

Northern Trust strongly recommends that clients seek independent advice in respect of any declaration and/or payment that you wish Northern Trust to make on your behalf. Northern Trust will bear no liability for inaccurate information being declared and/or inaccurate amount of tax being paid on your behalf via our sub-custodian in France. Any penalties due to late, inaccurate or incomplete disclosure will be passed on to clients and will not be borne by Northern Trust.

FOR MORE INFORMATION

If you have any further queries regarding the above, please contact your Northern Trust representative.

The information contained herein has been obtained from sources which we believe to be reliable, but its accuracy cannot be guaranteed. Such information is subject to change, is intended for informational purposes only, and is not to be construed as investment advice or guidance. This information is provided for the exclusive use of employees and clients of The Northern Trust Company and may not be further distributed or made publicly available without the written consent of Northern Trust. All opinions herein reflect the current knowledge of The Northern Trust Company but do not constitute any representation or warranty by Northern Trust that the above statements will in fact be correct and may not be relied on for any purpose, as they are dependent upon many external market factors beyond our control. For questions and further information, please contact your Northern Trust client service team. The Northern Trust Company, London Branch (reg. no. BR001960), Northern Trust Global Investments Limited (reg. no. 03929218) and Northern Trust Global Services Limited (reg. no. 04795756) are authorised and regulated by the Financial Services Authority. The material within and any linked material accessed via this communication is directed to eligible counterparties and professional clients only and should not be distributed to or relied upon by retail investors. For Asia Pacific markets, it is directed to institutional investors, expert investors and professional investors only and should not be relied upon by retail investors. Northern Trust (Guernsey) Limited, Northern Trust Fiduciary Services (Guernsey) Limited, and Northern Trust International Fund Administration Services (Guernsey) Limited are licensed by the Guernsey Financial Services Commission. Northern Trust International Fund Administrators (Jersey) Limited and Northern Trust Fiduciary Services (Jersey) Limited are regulated by the Jersey Financial Services Commission. Northern Trust International Fund Administration Services (Ireland) Limited, Northern Trust Securities Services (Ireland) Limited and Northern Trust Fiduciary Services (Ireland) Limited are regulated by the Central Bank of Ireland. Northern Trust Global Services Limited has a Luxembourg Branch, which is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF). Northern Trust Luxembourg Management Company S.A. is regulated by the Commission de Surveillance du Secteur Financier (CSSF). Northern Trust Global Investments Limited has a Netherlands branch, which is authorised by the Financial Services Authority and subject to regulation in the Netherlands by the Autoriteit Financiële Markten. Northern Trust Global Services Limited has a Netherlands Branch, which is authorised and regulated in the Netherlands by De Nederlandsche Bank. Northern Trust Global Investments Limited has a Sweden branch, which is authorised by the Financial Services Authority and subject to regulation in Sweden by the Finansinspektionen. Northern Trust Global Services Ltd (UK) Sweden Filial is authorised by the Financial Services Authority and subject to regulation by the Finansinspektionen. Northern Trust Global Services Limited operates in Abu Dhabi as a Representative Office. Our registered office is authorised and regulated by the Central Bank of the United Arab Emirates. The Northern Trust Company operates in Australia as a foreign authorised deposit-taking institution (foreign ADI) and is regulated by the Australian Prudential Regulation Authority. The Northern Trust Company has a branch in China regulated by the China Banking Regulatory Commission. The Northern Trust Company of Hong Kong Limited is regulated by the Hong Kong Securities and Futures Commission. Northern Trust Global Investments Japan, K.K. is regulated by the Japan Financial Services Agency. The Northern Trust Company has a Singapore Branch, which is a foreign wholesale bank regulated by the Monetary Authority of Singapore. The Northern Trust Company operates in Canada as The Northern Trust Company, Canada Branch, which is an authorised foreign bank branch under the Bank Act (Canada). Trustee related services in Canada are provided by the wholly owned subsidiary The Northern Trust Company, Canada, an authorised trust company under the Trust & Loans Companies Act (Canada). Deposits with The Northern Trust Company and its affiliates and subsidiaries are not insured by the Canada Deposit Insurance Corporation.

