Why Early FTT Data Implementation Will Be “Christmas Come Early” for Market Participants

Having just come out of another long and hot summer, those of us in the upper reaches of the Northern hemisphere are now getting acclimatized to the Autumn months, but with December and the holiday season still some way away.

For those in charge of updating securities tax data, December will already be firmly front of mind, and not because of a yearning for Christmas celebrations. The main reason is that this is when the lists of eligible companies and financial instruments for charging financial transaction taxes (FTTs) will be announced. This list and how it is implemented at investment banks, custodians, and asset managers, from the front office to the risk teams and back office, will determine whether it will be a happy or busy new year.

Since the introduction of the first major FTT in France back in 2012, there has been a steady stream of new securities transaction taxes introduced, including Italy and Spain, in 2013 and 2020 respectively. The taxes are marginal versus withholding taxes, and thus have not caused the kind of attention that a new regulation typically causes in the market. However, with higher interest rates, lower liquidity and inflation eating away at returns, market participants are now interrogating all sources of costs.

Reducing the tax burden is one of the areas now being looked at more closely to achieve better returns on investments. To do that, feeding in accurate transaction tax data at the ISIN level provides investors the kind of transparency needed to better manage exposures to taxable instruments. The only problem is the application of new taxes starts on the first trading day in January while firms receive lists of in-scope instruments in December, thus giving them very little time to prepare. As a result, firms may be liable to paying and charging taxes using inaccurate data, which has the potential to add up.

In most instances though, the new tax lists will not change much from the previous year and teams are usually able to implement them correctly. However, incorrect application of taxes means that investors will have to be recharged or re-paid to meet the correct taxable amount. This is bad both for customer relationships and for business reputation, but the cost implications of the internal firms’ processes are considerable too. Addressing incorrect tax application requires a considerable amount of operational legwork to correctly calculate and then resolve the wrongly applied tax which can filter all the way down from the pre- to post-trade workflow.

As a result of recent progress, market participants can actually gift themselves an early Christmas present to overcome the crunch time and prevent mistakes from arising in the new year. Working with specialist regulatory and tax data providers, such as SIX, it is now possible to seamlessly implement up to date tax classifications well before the January go-live date. In addition, preliminary data files with expected tax classifications can be added to systems to prep the implementation of the new taxes ahead of the first day of trading in January. Accordingly, those implementing tax data can ensure no stone is left unturned, and that the holiday season can be enjoyed safe in the knowledge that their FTT data inputs are taken care of.

Stamp Duty and FTT Service from SIX

The gradual, but in certain cases, sudden introduction of taxes on financial transactions in several countries brought challenges for the financial industry. The FTT Service from SIX helps financial intermediaries to easily identify and comply with the complex regulations.

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