STATEMENT FROM EFAMA’S BOARD OF DIRECTORS

EFAMA welcomes the recommendations made by the High-Level Forum in their report on the Capital Markets Union (CMU) about the need to disrupt and waive the existing Withholding Tax (WHT) barriers. Furthermore, EFAMA welcomes the European Commission’s action plan and the recently released package for fair and simple taxation, in particular legislative and non-legislative initiatives that are being considered with respect to WHT.

The Commission will propose a legislative initiative for introducing a common, standardised, EU-wide system for withholding tax relief at source, accompanied by an exchange of information and cooperation mechanism among tax administrations. In addition, the Commission will assess the need for exchange of information and cooperation between tax authorities and financial markets supervisory authorities. Options considered will include both legislative and non-legislative interventions and take into account the OECD Treaty Relief and Compliance Enhancement (TRACE) initiative.

These recommendations and the Commission’s action plan are aligned with EFAMA’s WHT strategy as well as with our Blockchain for Taxes / Distributed Ledger Technology (DLT) Project, as described below. We are prepared to contribute to an impact assessment and to help the Commission in drafting the suggested legislative proposal.

EFAMA is fully supportive of the European Council and European Commission initiatives that strengthen the framework conditions that enable the EU to promoting and enabling Blockchain as part of the Digital Single Market legal framework. We share the views of the signatories of the European Blockchain Partnership and our industry will stand ready to building a Blockchain/DLT infrastructure that can enhance value-based, trusted, user-centric digital services across borders within the Digital Single Market.

EFAMA supports the work plan that is being developed by the EU Observatory and Forum, as well as by the signatories of the European Blockchain Partnership and is getting ready to help the relevant stakeholders to build up the European Blockchain Services Infrastructure (EBSI). We are also available to start working with the International Association for Trusted Blockchain Applications (INATBA) and with tax authorities to develop a technical solution that fits the ultimate purposes of this project.

We understand the challenges to design and implement a policy vision to take Blockchain further under the next budget and we are available to contribute with the views and expertise of our industry to further develop the Blockchain ecosystem in Europe.

EFAMA reckons that existing WHT procedures may be streamlined if digital best practices are implemented and is supportive of initiatives taken at European Commission level (the EU Code of Conduct in particular) as well as of the OECD TRACE initiative.

EFAMA members agreed on a long-term solution to address the long standing issues with Withholding Tax (WHT) procedures and we are exploring the many opportunities that Blockchain/DLT solutions can offer to deepen trust and transparency for all market participants including tax authorities. Building on the work of EFAMA’s Taxation and Accounting Standing Committee and Blockchain for Taxes Task Force, we have agreed on an action plan to develop and implement a DLT solution in a phased approach (as the project evolves to the next phase the relevant stakeholders will be represented in the chain):

- Phase 0 – Design/Concept (EFAMA members).
- Phase 1 – Pilot Test - Proof of Concept (Custodians, selected Tax Authorities) targeting reclaim only markets.
- Phase 2 - Expand to cover Relief at Source markets (Phase 1 participants, Investment funds, Company Registrars, SWIFT, paying agents).
- Phase 3 - Deliver full investment chain (Phases 1 and 2 participants as well as brokers and ultimate beneficial owners).
Our work in this field has reached an important milestone, as the design concept of our long-term common solution is now ready to evolve to the next phase. The aim is to find a solution that can help us as an industry recover the € 8.4bn EUR (estimate from 2016) annual loss imposed by the existing burdensome WHT relief procedures (e.g. prohibitive compliance costs, inefficiencies of the procedures, opportunity costs). At the same time, we strongly support all the EU’s initiatives to enhance tax transparency within the EU with the aim to tackle financial crime and tax evasion and we will use the opportunity to protect the industry from the reputational risks that arise from tax fraud cases.

We are committed to work with the support and under the endorsement of the European Commission (DG CNECT, DG TAXUD and DG FISMA), as well as of the OECD Centre for Tax and Administration. EFAMA stands ready to be the voice of the industry in this process. Close cooperation between participants towards a common DLT WHT project can avoid fragmented approaches and all EFAMA members agree to cooperate in order to take this project to the next stage. This is an initiative that, from day one, requires the support and effort of all market participants, including global custodians, investment funds and asset managers. Soon, with the help of Global Custodians we will identify Tax Authorities who are willing to explore the use of DLT technology in order to build and test the platform with regards to utility and functionality.

Brussels, 23 September 2020

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