

# INVESTMENT STRUCTURES AND INCOME FLOWS

Current environment and  
associated issues

# In Summary

- Cross border investors rarely have a direct relationship with the issuer of the securities in which they invest
- There will usually be several intermediaries between these two parties and separate contractual agreements will normally be in place between each party in the chain
- Income payments typically flow from the issuer to the investor via each interposed intermediary
- The following slides:
  - Detail the types of intermediary that are commonly involved
  - Illustrate some potential investment structures, and the associated flow of income
  - Explain the problems attached to securing tax relief in this environment and the consequences to investors

# Intermediaries Commonly Involved

- **Paying Agent**
  - *The paying agent acts for issuer of security and is responsible, inter alia, for facilitating distributions from the issuer to its shareholders*
- **Central Securities Depository (CSD)**
  - *In most markets, the vast majority of publicly traded securities are held through a CSD. A CSD is designed, inter alia, to facilitate electronic settlement of security transactions on behalf of its members (which are typically local financial institutions such as brokers and custodian banks)*
- **Custodian Bank**
  - *The custodian bank will normally be a local bank and a member of the CSD. The custodian bank offers a full range of settlement, banking and custodian services*

# Intermediaries Commonly Involved

- **Global Custodian**

- *A global custodian provides a single access point to national CSDs in various countries through its network of local custodian banks. It offers lower overall costs of settlement and a wide range of other services by exploiting economies of scale and spreading fixed costs such as technology investments.*

- **International Central Securities Depository (ICSD)**

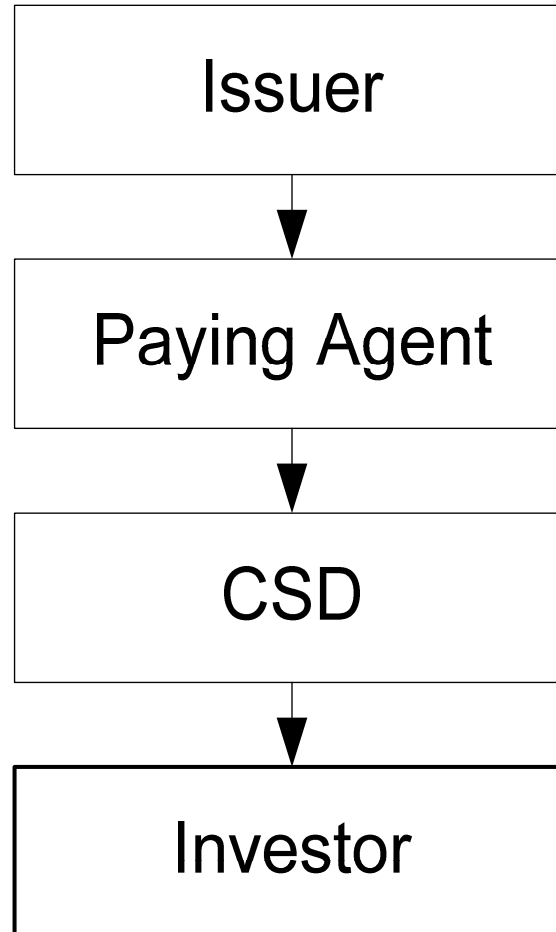
- *The two ICSDs (Euroclear Bank and Clearstream Banking) were originally established for the electronic settlement of eurobonds*
- *ICSDs now also have similar functions as global custodians for other securities (although overall security coverage may be more limited with an ICSD compared to a global custodian).*

# Intermediaries Commonly Involved

- **Investment Manager**
  - *Provides professional investment execution services. May also have contractual custodial responsibilities in respect of those investments, although such responsibilities are normally outsourced by the investment manager to a global custodian*
- **Other**
  - *May include broker, private bank, bank in residence country, professional trustee etc.*

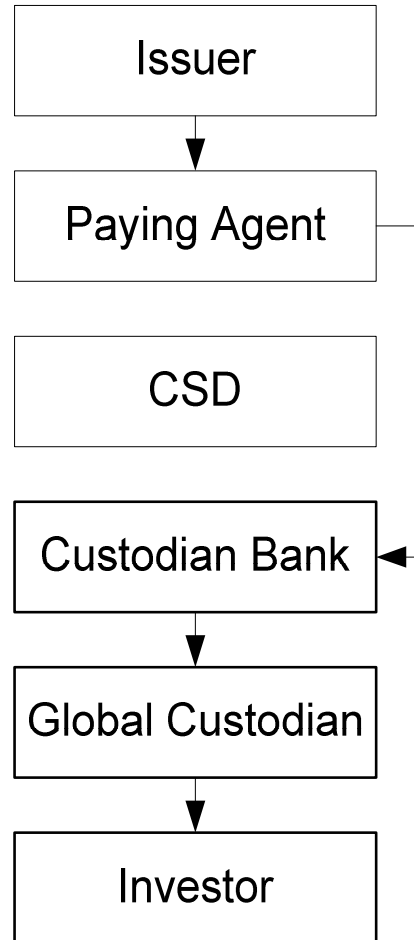
# Potential Investment Structure & Income Flow

(Rarely exists in practice except in purely domestic scenario)



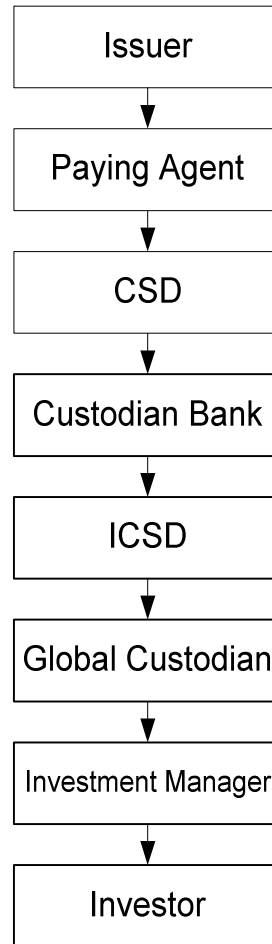
# Potential Investment Structure & Income Flow

(More representative of cross border investment)

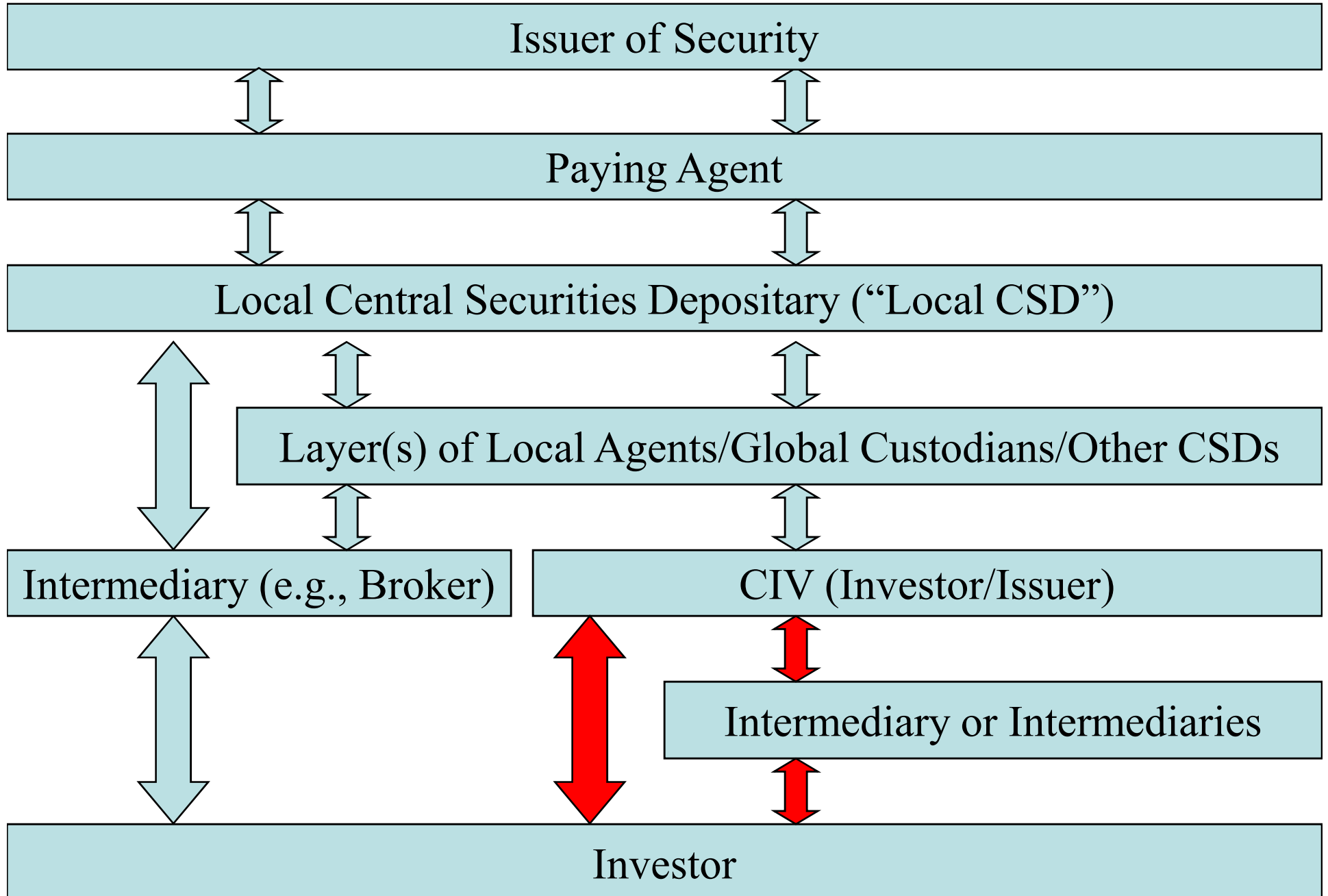


# Potential Investment Structure & Income Flow

(Also representative of cross border investment, but more complex)



# Potential Investment Structure Involving CIV

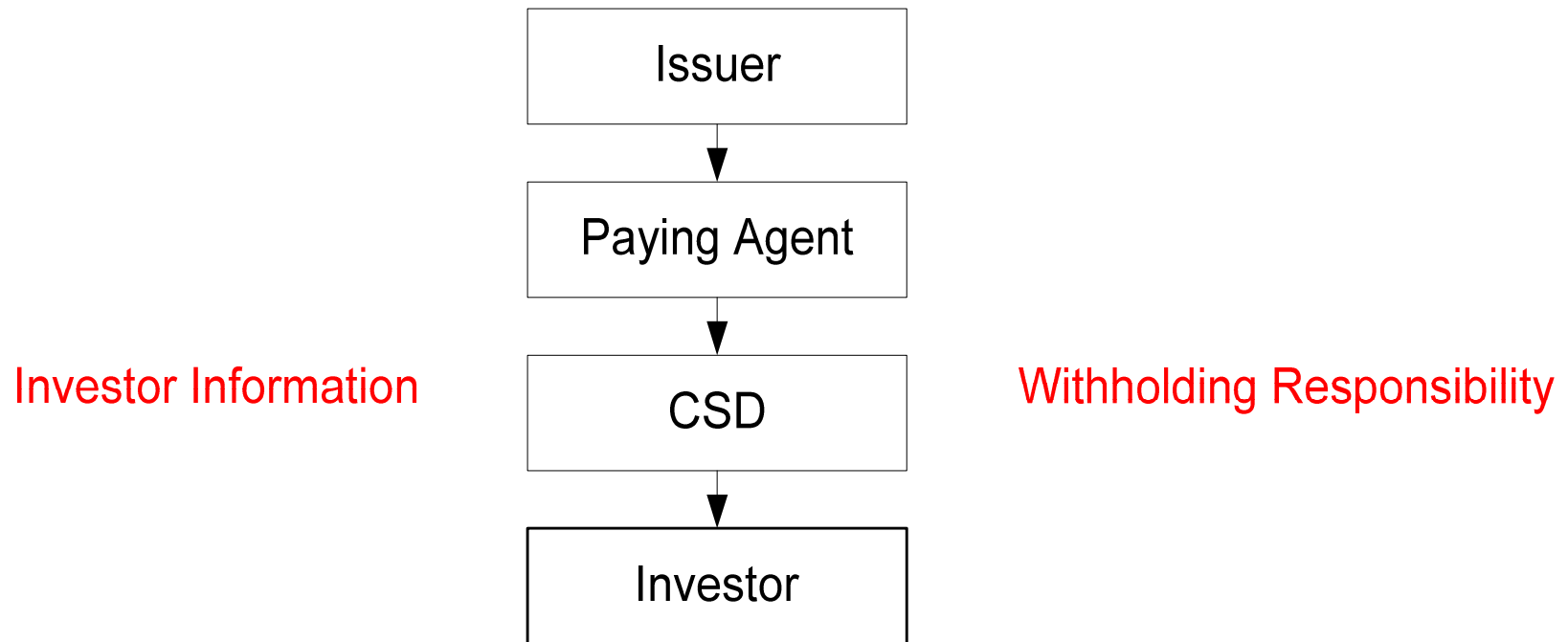


# Problems Securing Tax Relief

- Responsibility for withholding tax usually rests with one of the parties at the top of the chain (typically issuer, paying agent, CSD or custodian bank in source country)
- Investor information usually rests at the bottom of the chain, with the intermediary acting directly for the investor
- There are commercial, economic and practical difficulties attached to passing investor information up the chain
- The tax relief systems in source countries vary considerably and a number of countries have failed to keep pace with the growing level of intermediation in typical cross border portfolio investment structures and with the increased volumes of cross border investments

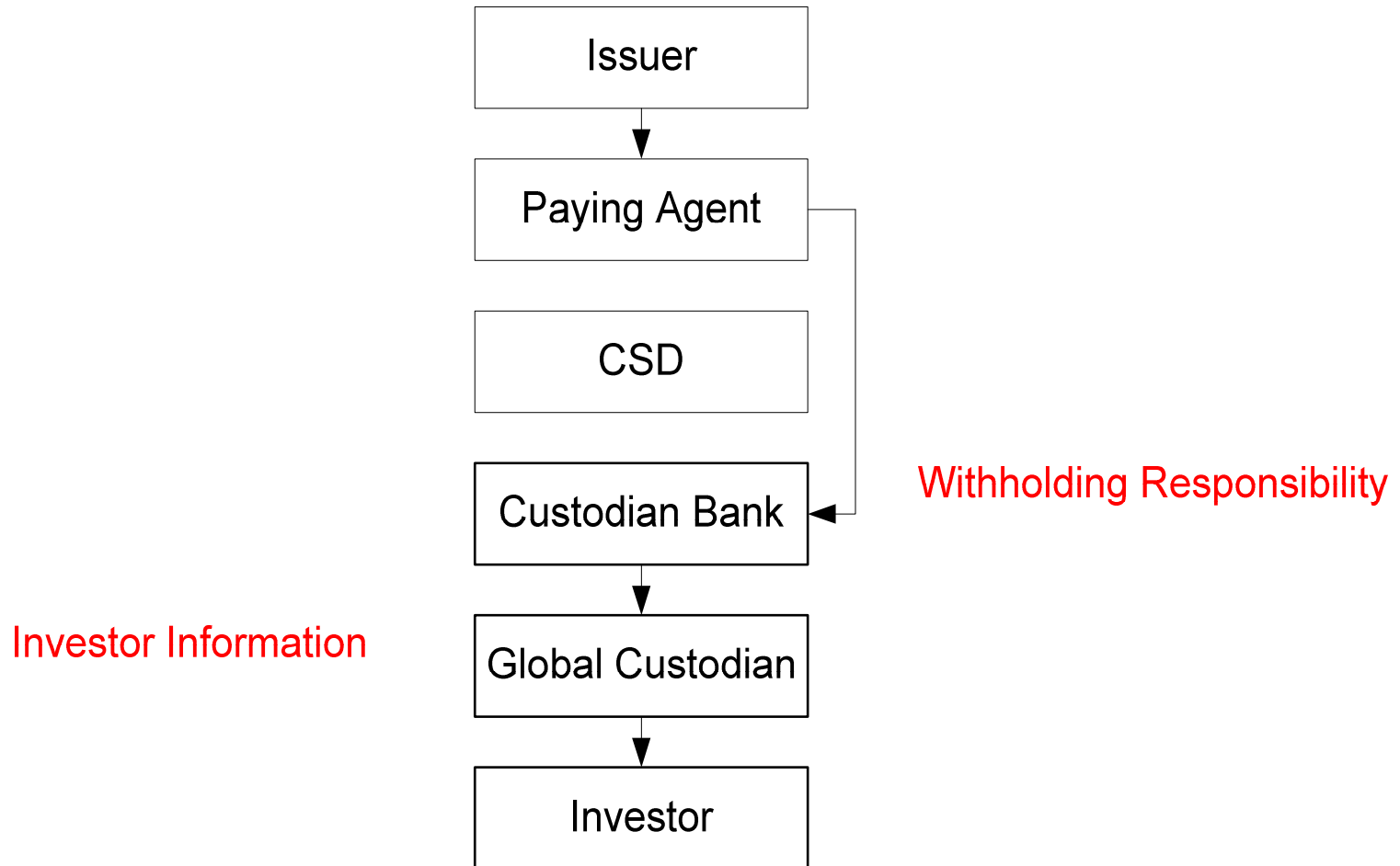
# Positioning of Withholding Responsibility & Investor Information

(Rarely exists in practice except in purely domestic scenario)



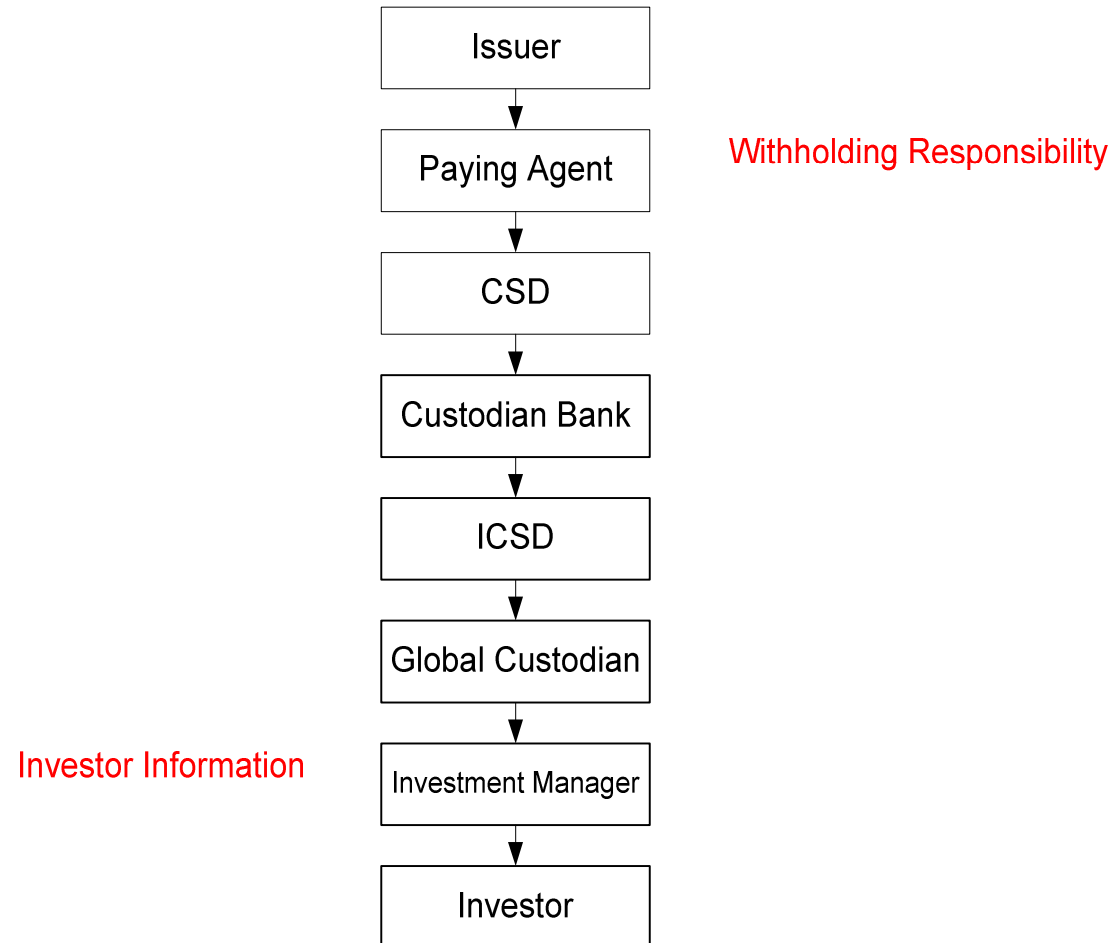
# Positioning of Withholding Responsibility & Investor Information

(More representative of cross border investment)



# Positioning of Withholding Responsibility & Investor Information

(Also representative of cross border investment, but more complex)



# Some Specific Problems

- Investors required to complete multiple tax declarations
- Other excessive tax documentation requirements (e.g. notarisation of documents, provision of multiple residence certificates etc.)
- Imposition of local advisors in certain countries
- No “at source” relief facilities in certain countries
- No centralised tax office for retrospective claims in certain countries
- Extended refund timeframes in certain countries
- Some countries view the legal owner as being the beneficial owner, whereas it is difficult for nominee to claim beneficial ownership

# Consequences

- Eligible investors may be denied treaty relief entitlements or suffer disproportionate costs in securing that relief