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Equities Market Survey

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May 2018

The Asociación Mexicana de Intermediarios Bursátiles A.C. (AMIB) initiated a survey of ICSA members on 1) their relationships with stock exchanges and 2) tax incentives for new issues.

Twelve jurisdictions are included in the results.

Relationships with Stock Exchanges

TCMA has the most direct link to its exchange, with a financial interest and board representation. AFMA has ASX as a member.

The other associations have no direct link to stock exchanges. However, some operate within a legislative framework (e.g. AMAFI, JSDA, NZFMA).

All the associations report close ties and interaction with stock exchanges in varying forms, including participation in committees, regular meetings, and consultations.

Tax Incentives for New Issuers

The U.S. appears to have the most favorable tax incentives for new issuers, with capital gains exclusion for investors in small companies.

Most jurisdictions do not appear to offer tax incentives, but instead encourage issuance through retail investor friendly schemes and improved issuance procedures.

Results

I. Relationship between Stock Exchanges and ICSA Members

	AFMA Australia	AMAFI France*	AMIB Mexico
<i>Is there a direct or legal link?</i>	The Australian Securities Exchange (ASX - main listing securities exchange) and Chi-X Australia are financial members of AFMA. Other market operators dealt in fixed income and derivatives and clearing and settlement service providers are also members of AFMA.	Under the French Monetary and Financial Code – Legislative Section, Section 4 (Professional bodies) states in Sub-section 1 Article L. 511-29 that <i>“All credit institutions are required to belong to a professional body affiliated with the Association Française des Établissements de Crédit et des Entreprises d’Investissement.”</i>	The Mexican Stock Exchange is related to AMIB as a “honorary affiliate”, so they can participate in some AMIB’s committees with voice but without the right to vote.
<i>How does your association collaborate with the exchange?</i>	The ASX is represented on several committees and they also brief other committees from time to time. AFMA also has representatives on ASX advisory groups. In similar ways to other members ASX provides views and comments which are reflected in our collective representation of member interests. We also act as a forum where members can share their views with the exchanges. Our membership agreements with the exchanges specifically exclude representation in relation to market competition matters.	AMAFI represents professionals working in the securities industry and financial markets in France. AMAFI’s member firms, which number 137, are directly involved in the financial markets (intermediaries, banks, infrastructures) and include independent companies and subsidiaries of French and foreign groups operating in all areas of the industry (broking, dealing, underwriting, corporate finance, etc.) and all products (equity, debt and derivatives, including commodities).	The Mexican Stock Exchange is represented on some AMIB’s committees and we collaborate with them as an intermediary of Mexican broker dealers in several working groups of different subjects from time to time.

	BWF Germany*	DSDA Denmark	IIAC Canada
<i>Is there a direct or legal link?</i>	The purpose of the association is to promote the mutual professional interests of investment firms. The bwf represents the interests of the industry in the framework of upcoming national and European regulatory and legislative initiatives in the area of financial services and capital markets law.	No link. We have dialogues and participate in their committees.	There is no direct or legal link between the IIAC and the local stock exchanges, except where an exchange elects to become an Affiliate Member of the IIAC. IIAC Affiliates are non-investment-dealer firms that operate within, or provide services to the Canadian investment industry. They include non-dealers (e.g., custodians, marketplaces, investment managers), service and infrastructure providers, and other suppliers (e.g., legal, audit, technology and consulting firms). Benefits of Affiliate membership include invitations to member-only events, preferred rates for or complimentary access to IIAC conferences, eligible participation in various IIAC group benefit plans, participation in select roundtables as presenters or attendees, distribution of your corporate literature to IIAC members via IIAC communication channels and networking opportunities.
<i>How does your association collaborate with the exchange?</i>	The bwf seeks ongoing dialogue with the legislative bodies, supervisory authorities, other banking and financial associations, the interested public, and the various stock exchanges at the national and European level.	If the exchange would like to introduce new products/new facilities/new systems/change of rulebook they engage with members bilaterally and with us (DSDA, SSSA, Finance Finland, NSA etc.) to get input. If principal matters, the SDAs coordinate input to the exchange.	In addition to the Affiliate Member program, the IIAC collaborates with stock exchanges by inviting them to be sponsors and speakers at IIAC events. In addition, the IIAC periodically works with stock exchanges to advocate on various regulatory initiatives where the interests of IIAC members and the exchanges are in alignment. Recent examples include tax regulation, rules regarding takeover bid rules and various market structure initiatives aimed at the venture market.

	JSDA Japan	NZFMA New Zealand	SIFMA USA*
<i>Is there a direct or legal link?</i>	<p>There is no legal or direct link between Japan Exchange Group (JPX) and Japan Securities Dealers Association (JSDA). JPX has its self-regulatory organization (SRO), called “Japan Exchange Regulation” within its group.</p> <p>Although JSDA and JPX have no legal link, we communicate continually regarding the self-regulation, inspection, investor education, and market practice, etc.</p>	<p>The NZX operates within a legislative framework as an operator in the securities market. It is responsible for monitoring and enforcing rules under which NZX’s markets operate. However there is no direct or legal link, although the NZX does list exchange traded credit instruments that are issued by NZFMA members and do produce indices in consultation with our members. As an aside, the NZX some years ago sold the assets of the NZ Futures & Option Exchange to the ASX. Had the NZX retained the Futures & Options Exchange, there would have been a formal link with the banks providing capital as Exchange members.</p>	<p>No direct link.</p>
<i>How does your association collaborate with the exchange?</i>	<p>For instance, when JSDA conduct inspection on its association member and the member is a participant of JPX, JSDA and JPX visit the member simultaneously and conduct an inspection together to avoid duplication. Basically, the purview of JSDA is to ensure investor protection including solicitation for financial instruments, segregation of customers’ assets and the qualification of sales representatives. On the other hand, the purview of exchange is to ensure market fairness and checks the management status of monitoring unfair trading, preventing erroneous order, etc.</p>	<p>The NZFMA does engage on market related issues. Specifically the NZX is obligated to provide continuous disclosure on all traded instruments where relevant. Our members have a special interest in announcements relating to exchange traded credit instruments. Recently we have experienced some inconsistencies in reporting and have engaged the NZX. We have now formed a joint working group to resolve the matter.</p> <p>The NZFMA has recently invited the NZX to co-host its annual charity golf event with the view that their inclusion will widen market participation at the event. 2018 will be the first year of their inclusion.</p>	<p>SIFMA is the voice of the U.S. securities industry and advocates for effective and efficient capital markets. SIFMA represents the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans.</p>

	SSDA Sweden	TCMA Turkey	TSA Taiwan
<i>Is there a direct or legal link?</i>	There is not direct or legal link between the exchange and SSDA, however one company in the NASDAQ group in its capacity of investment firm is a member of the association	Turkish Capital Markets Association (TCMA) has a direct/legal link to Borsa Istanbul, Turkey's sole stock exchange. TCMA retains a 1.30% equity stake at Borsa Istanbul and is represented with 1 seat on Borsa Istanbul's Board of Directors.	TSA has a very good relationship with local stock exchanges. There is no direct or legal link between us, although some of our member companies are also board members of the exchanges. The reason for such good relationship is we try very hard to earn some respect and influence to our regulators. The regulators want stock exchanges to work with the industry to make things develop smoothly and TSA is the unique stock association to represent the industry.
<i>How does your association collaborate with the exchange?</i>	The exchange offers consultation on changes of its rule-book to the relevant associations acting on behalf of the members of the exchanges in Sweden. On the Equities side, meetings between members and the major exchange is organized about every 6 weeks where all kind of issues of common interests are discussed.	TCMA and Borsa Istanbul collaborate on a number of issues: - TCMA organizes in conjunction with Borsa Istanbul working groups, seminars, meetings and conferences on a wide array of issues ranging from sustainability to financial product development to Fintech. - Borsa Istanbul frequently provides financial as well as intellectual support and input to the events TCMA organizes for the improvement of capital markets in Turkey. - TCMA regularly acts as a bridge between Borsa Istanbul and financial firms: Opinions, thoughts and ideas from the sector are compiled and referred to Borsa Istanbul to facilitate and develop industry practices and regulatory issues.	For the <u>fees</u> stock exchange charge on securities companies, TSA always discusses with stock exchanges to finalize the level. For any new <u>information system change</u> or <u>management rule change</u> , stock exchange usually also consults with TSA before it is finalized

II. Tax benefits for new issuers

	AFMA Australia	AMAFI France*	AMIB Mexico
<i>Are there any tax benefits for new issuers or other type of incentives?</i>	<p>Australia does not have specific tax incentives for new equity issuance.</p> <p>Australia does have a credit franking regime. Shareholders receive a rebate for the tax paid by the company on profits distributed as dividends. Franking credits are also known as imputation credits.</p> <p>This eliminates double taxation of company profits (at the corporate level and again as dividends to shareholders.) This reduces the cost of investing in Australian companies for Australian residents. However, it provides little benefit for non-resident shareholders in Australian companies because credits do not reduce home country tax liability. A franked dividend paid to a foreign investor is exempt from dividend withholding tax (currently 0-30%,</p>	<p>The two main tax incentives for companies are the R&D tax credit and the competitiveness and employment tax credit.</p> <p>Dividends paid to a non-resident are subject to withholding tax.</p>	<p>There is no tax benefits for new issuers.</p> <p>Mexican Stock Exchange is constantly improving its listing rules with the intention to make the process easier, also with the beginning of operations of the new stock exchange we expect competition between the stock exchanges in benefit of the issuers and investors.</p>

	<p>subject to the terms of the relevant tax treaty.</p> <p>It is argued that imputation is likely to have a more positive effect in reducing the cost of capital for smaller and unlisted Australian companies, particularly when they are starting up or raising new equity. These companies typically have more limited or indirect access to international capital.</p> <p>Dividend imputation also provides integrity benefits. For Australian companies with largely resident shareholders, company income tax acts as a prepayment of the personal income tax liabilities of shareholders on future dividends. The benefit to companies and their shareholders of avoiding or deferring company income tax is reduced. This can increase company income tax revenues and possibly reduce the need for anti-avoidance rules in general.</p>		
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	BWF Germany	DSDA Denmark	IIAC Canada
<i>Are there any tax benefits for new issuers or other type of incentives?</i>	<p>Most types of investment or operational incentive in Germany are provided in the form of direct subsidies as non-repayable cash grants, reduced-interest loans, public guarantees or silent participations. Various federal and regional programs exist.</p> <p>Tax incentives are very limited and mainly comprise pre-investment and investment allowances for certain start-ups and small and medium-sized businesses.</p> <p>Capital gains arising from the sale of shares by a corporation generally are 95% exempt (a 100% exemption with a 5% add-back as a nondeductible business expense), regardless of how long the participation in the subsidiary has been held and the extent of the participation.</p>	<p>We have just introduced an investment saving account in Denmark, originally inspired by the Swedish Investment Saving Account. However, the Danish model is not as broad and supportive as the Swedish model (in DK there are limitations in the deposit: It is 50.000 DKK and may be increased to 200.000 DKK (subject to political negotiations). The tax is favorable and it is possible to invest in listed shares and equity based UCITS.</p>	<p>Tax incentives or other types of incentives for new issuers are practically unheard of in advanced markets. Canada does not provide such incentives.</p> <p>A Milken Institute report noted: “In general, policymakers are more cautious about offering tax breaks to listing firms because they do not want to entice the wrong kind of firms to list. If firms are listing mainly to avoid paying taxes, but are otherwise unready or ill-suited for becoming public companies, investors are likely to lose confidence in the quality of listings on the exchange, with a drop-off in trading activity and lower participation in new offerings potentially to follow.”</p>

	JSDA Japan	NZFMA New Zealand	SIFMA USA*
<i>Are there any tax benefits for new issuers or other type of incentives?</i>	In Japan, it seems that there is no tax benefit or incentives focusing on new issuers, while there is a tax benefit scheme for investors who bought stocks of start-up companies if the investment meets a certain condition, called "Angel tax system."	There are no tax benefit or incentives for new issuers on the NZX. However with only seven IPO's in the last twelve months, the NZX has embarked on a total review of its listing rules. The intention is to make it easier to list, reduce compliance costs, increase the range of instruments, and make it easier to access offshore listings and enhancing investor protection.	By far the biggest tax benefit for US investors in early stage companies falls under IRS Tax Code Section 1202. This tax provision allows for the exclusion of up to 100% of capital gains for US Federal taxes. As long as the stock is held for a minimum of 5 years before the sale occurs, capital gains exclusions can range from 50-100%. A qualified small business stock (QSBS) must be a domestic and active C-corporation whose gross assets do not exceed \$50 million.

	SSDA Sweden	TCMA Turkey	TSA Taiwan
<i>Are there any tax benefits for new issuers or other type of incentives?</i>	No specific tax incentives for new issues. However we have since a few years back a very retail friendly taxation for investments in financial instruments.	Companies that wish to go public have to apply to Borsa Istanbul. An application fee of TRY 12,475 (USD 2700) is charged by Borsa Istanbul. For the companies whose registered offices are located abroad, application fee is reduced by half. For companies applying to the BIST Emerging Companies market, a specialized market for companies of smaller proportions, the fee is reduced to TRY 3,090 (USD 700).	No clear tax benefits or incentives for new issuers. However, there will be some regulation-relaxation for new issuers on the so-called innovation companies, such as FinTech or AI.

* interpreted by Secretary General