

SDRT Information

Order book for Retail Bonds (ORB)
Stamp Duty Reserve Tax Information

September 2014



London
Stock Exchange Group

SDRT Information

Transfers of bonds are generally exempt from SDRT, however the treatment of such instruments that are set up as CREST Depository Interests (CDIs) for the purpose of settlement into Euroclear UK & Ireland Limited's system, CREST, has recently changed. This factsheet aims to provide some guidance on the SDRT position as outlined by HMRC and Euroclear UK & Ireland in relation to transfers in corporate bonds in order to assist firms trading on the Order book for Retail Bonds service.

Stamp duty loan capital exemption

Trades in bonds are not chargeable for SDRT where the instrument satisfies the exemption requirements set out in section 79 (4) of the Finance Act 1986. In broad terms this exemption covers most transfers in vanilla structured bonds, but does not include convertible bonds.

Gilts and bonds issued by designated international organisations are also exempt from SDRT.

CDIs based on Eurobonds

Most CDIs are exempt from SDRT only where their underlying instrument is deemed to be a 'foreign security', thereby qualifying for the foreign securities exemption. CDIs which have as their underlying security Eurobonds issued by UK issuers do not qualify for this exemption.

Many bonds issued by UK issuers and listed in London will be issued as Eurobonds into International Central Securities Depositories (ICSDs) such as Euroclear and Clearstream. If these Eurobonds are then set up for domestic settlement in the UK, they will be set up as CDIs within CREST. As they do not qualify for the foreign security exemption, many of these instruments will have been flagged as chargeable for SDRT within the CREST system.

HMRC has now confirmed that transfers in CDIs are not a chargeable for SDRT where the underlying bond satisfies the stamp duty loan capital exemption (even if it does not meet the foreign securities exemption) set out in section 79(4) of the Finance Act 1986. This means that most vanilla structured bonds are exempt from SDRT, regardless of whether or not they are set up as a CDI.

Because not all Eurobonds will satisfy the rules for stamp duty loan capital exemption Euroclear UK & Ireland will only amend the SDRT exempt flag on CDIs to non-chargeable within the CREST system on receipt of confirmation that the underlying bond qualifies for this exemption. Instruments previously flagged as chargeable will not be marked as exempt from SDRT until action is taken by the issuer, a CREST member or another party.

Confirmation can be provided to Euroclear UK & Ireland through the "Bonds Exempt from Stamp Duty and Stamp Duty Reserve Tax on Transfer" form, which is available at www.euroclear.com.

CDIs admitted to the Order book for Retail Bonds

All corporate bonds currently available on the Order book for Retail Bonds are flagged as exempt from SDRT within the CREST system.

For those instruments which were not previously flagged as exempt prior to their admission to the service, the London Stock Exchange plc has indicated to HMRC and Euroclear UK & Ireland that it understands that the instruments admitted to the service are not chargeable securities. This understanding has been reached by the London Stock Exchange in good faith having considered the terms of the CDIs, the technical position laid out in Euroclear UK & Ireland's operational bulletin No.1649, dated 27 January 2010 and the exemption at section 79(4) of the Finance Act 1986.

Further information

If you require any further information please contact the Fixed Income team at bonds@lseg.com or on +44 (0)207 797 3921.

Related documentation

Section 79 (4) of the Finance Act 1986

Euroclear UK & Ireland operational bulletin No. 1649, 27 January 2010

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It is the responsibility of the individual trading member and not the London Stock Exchange to ensure that the CDIs which the member is proposing to transfer by means of the CREST system and which are identified by the CREST system as being exempt from the charge to SDRT on their transfer are so exempt.

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