HMRC - STSM042340 - Reliefs: Central Counterparty Clearing Relief From Stamp Duty And SDRT

An organisation may provide clearing services for equity transactions undertaken by broking firms. Clearers assume responsibility for safeguarding buyers and sellers of equities and derivatives. They guarantee the performance of each contract by ensuring delivery of the shares by the seller or payment by the buyer.

In general terms, a clearer does not (unlike a ‘settlement agent’) settle trades on behalf of the individual seller or buyer by arranging shares to be delivered from their account to the buyer or paying consideration for shares acquired by the buyer. A clearer ensures that the shares are transferred from the seller’s account in CREST or consideration is paid by the buyer’s account in CREST on the agreed transaction settlement date.

A ‘clearing house’ may act as a clearer for both seller and buyer for all share transactions undertaken and executed on a market. Once a trade is matched in an electronic order book, the clearing house becomes the ‘buyer’ to every seller and ‘seller’ to every buyer, ensuring the performance of transactions. The clearing house does not, however, hold principal positions for its own account. It acts as a ‘central counterparty’ to ensure that the seller delivers securities and the buyer accounts for the consideration payable.

Every broker proposing to trade and clear transactions on a market will need to establish a clearing relationship with the central counterparty (or one of the central counterparties if more than one are available on that market). Any broker who does not have a direct relationship must clear through a broker who does.

In order to give effect to a purchase of chargeable securities by B from A on a market, there may be a chain of transactions. For example, the securities may be transferred from A to A’s broker to a clearing broker to the central counterparty to another clearing broker to B’s broker to B. Each acquisition in the chain may give rise to an SDRT charge. It may be that intermediary relief (see STSM02050) is available for some of the transactions. The Treasury has the power to make regulations to provide further stamp duty and SDRT relief for transactions involving investment exchanges and clearing houses (FA91/SS116-117). The idea is to relieve all the intermediate transactions leaving a single charge on the ultimate delivery to the end investor.

Where such regulations are made, they provide relief for certain transactions in the chain. The regulations must prescribe the circumstances which attract relief. They generally refer to transactions made on the relevant market where securities are acquired by a clearing member (or its nominee) or by the clearing service (or its nominee) acting as the central counterparty. The regulations must relate to a prescribed recognised investment exchange and a prescribed recognised clearing house.

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