

December 1, 2020

HSBC Launches Market First For Tax Transparent Fund Securities Lending

(London) – HSBC today announced a new custody and fund administration technology and operating model for tax transparent funds (TTFs), where ‘look-through’ is applied at the share class level for securities lending, making this a market first.

This approach improves the tax transparency of securities lending opportunities in TTFs for institutional investors, such as life insurers, pension funds and asset managers, while maintaining the tax neutrality of the TTF itself.

Ed Turner, Global Head of Insurance Product, Securities Services, HSBC, said: “This is potentially a game changer for tax transparent fund operators. By being a first mover in the market with this new model for securities lending, HSBC can help asset owners and asset managers achieve better returns on their investments via tax transparent funds.”

Since 2015, HSBC’s Securities Services has been administering TTFs, with more than 60 sub-funds now under administration.

Mr Turner added: “TTFs have continued to grow in popularity largely due to the benefits they bring to asset owners and investors, including tax transparency, economies of scale from pooled investments, and their flexible structure that allows asset owners to unitise their portfolios.”

Currently, the standard industry model for TTFs engaged in securities lending applies a blended withholding tax rate to securities on loan across an entire sub-fund, since TTF investors have disparate withholding tax profiles (eg, pension funds and UK corporates). This therefore would result in some tax inefficiencies on manufactured dividends for investors.

HSBC’s newly enhanced securities lending model is designed to address this industry inefficiency by ‘looking through’ to the tax rates at the share class level for TTFs administered by HSBC. This allows the investor’s securities lending agent to trade on identifiable and fixed withholding tax rates, making it more efficient to match the supply of TTF securities with the demand from securities borrowers.

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News Release

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About HSBC

HSBC Holdings plc

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of \$2,956bn at 30 September 2020, HSBC is one of the world's largest banking and financial services organisations.