

General Description of the
MAIN TAX ASPECTS OF THE X/N SETTLEMENT SYSTEM

Taxation rules for the operation of the NBB-SSS mentioned in article 1.1° of the Law of 6 August 1993 on transactions in certain securities.

1. Application of the provisions of the Law of 6 August 1993 on transactions in certain fixed-interest securities to Participants in the NBB-SSS and their account-keeping customers.

1.1. By the Royal Decree of 14 June 1994¹ the NBB-SSS operated by the National Bank of Belgium (NBB) was approved as an X/N system (hereafter the “X/N system”) in accordance with Article 15 of the Law of 6 August 1993 on transactions in certain securities.

Consequently, transactions in the NBB-SSS are subject to the tax provisions of the above-mentioned Law of 6 August 1993 and of its implementing decrees², except for those which remain subject to ordinary tax law (see below, point 2).

This annex may be amended as a result of new legal measures or regulations.

Taxation is governed solely by legal provisions and regulations and by the circulars of the Belgian Tax Authorities (Direct Tax Department). The operator of the X/N system (hereafter the “X/N operator”) may give instructions to the Participants in order to ensure proper application of the tax rules and proper operation of the system.

¹ Royal Decree of 14 June 1994 approving a settlement and clearing system in accordance with chapter 1 of the Law of 6 August 1993 on transactions in certain securities.

² Royal Decree of 26 May 1994 on the collection and refunding of the withholding tax in accordance with chapter 1 of the law of 6 August 1993 on transactions in certain securities, as amended from time to time.

- 1.2. Participants and their account-keeping customers agree that they become subject to the tax provisions of the X/N system as soon as they carry out transactions governed by the rules of the X/N system. It is incumbent on the Participants to provide their account-keeping customers with appropriate information on the operation of the X/N system and the rights and duties resulting from this participation and ensure that their account-keeping customers comply with the rules of the X/N system.

The collection and refunding of taxes in the X/N system take place solely through the participants to the X/N system. Participants expressly acknowledge and accept this responsibility as intermediary vis-à-vis their account-keeping customers and guarantee its proper performance.

- 1.3. The list of the securities accepted in the NBB-SSS is published on www.nbbsss.be and available in the RAMSES application.
- 1.4. The X/N operator is authorised to establish a scale of charges specific to the X/N system.
- 1.5. Pursuant to Article 14 of the Royal Decree, no refund (equal to the withholding tax) is due in the case of withdrawal of securities from an X-account, when the debtor of the income remains in default on the Payment date. If the refund is postponed (until the payment of the income), the transactions will be carried out in the X/N system on the Payment date and the X/N operator will apply, on behalf of the parties, a deduction of an amount equal to the withholding tax, by creating a separate Dedicated Withholding Tax Transaction.
- 1.6. If a Participant fails to comply with the administrative formalities laid down by the taxation laws, the X/N operator is authorised to carry out unilaterally at the expense of the Participant the operations required by the Law of 6 August 1993, such as, inter alia, the collection of the withholding tax or the recovery of the refund equal to the withholding tax.
- 1.7. For all amounts due as a result of the participation in the X/N system, including tax corrections resulting therefrom (see point 9 below), the Participants accept the application of the NBB-SSS Terms and conditions, including the rules applying to Dedicated Cash Accounts, both for the transactions carried out for their own account and on behalf of third parties.
- 1.8. Except for the application of article 6 bis of the Royal Decree of 26 May 1994, the rules of article 6 of this Royal Decree (see below point 3.) are also valid for account-keepers established outside Belgian territory.

2. Management of Transactions in Securities

All transactions in securities admitted in NBB-SSS are subject to the X/N system.

The X/N tax rules are applicable only from the entry of these securities in a securities account held in the NBB-SSS. When these securities circulate outside the X/N system, transactions in them are subject to ordinary tax law.

3. Securities Accounts Exempt from Withholding Tax (X Accounts)

3.1. Opening of an X account

The investors authorised to hold a securities account exempt from withholding tax are enumerated in Article 4 of the Royal Decree of 26 May 1994 on the collection and refunding of the withholding tax in accordance with chapter 1 of the Law of 6 August 1993 on transactions on certain securities (hereafter “the Royal Decree”).

When an X account is opened, the investor must send to the institution acting as account-keeper, in accordance with Article 5 of the Royal Decree, an identification certificate (see annex 3.1) whereby he declares that he belongs to one of the categories of investors entitled to claim exemption from the withholding tax as listed in Article 4 of the Royal Decree. This certificate must be kept by the account-keeper and held at the disposal of the Belgian Tax Authorities.

Account-keepers established outside Belgium must send the certificates to the NBB-SSS or to their Belgian participant which holds them at the disposal of the Belgian Tax Authorities.

According to Article 6 of the Royal Decree, the financial institution acting as account-keeper must also send to the NBB-SSS, at the latest on the 15th January of each year, the list of all persons and/or entities that held one or more X-account during the precedent calendar year (« the **nominative statement** »)³. This list must contain the names and full addresses of the holders of the X-accounts.

According to Article 6bis of the Royal Decree⁴, the obligations regarding the identification certificate and the nominative statement do not apply to central securities depositaries (“CSD”) as defined in Article

³ When the nominative statement refers to legal entities that are part of the European system of national and regional accounts (ESA) or to semi-governmental institutions for social security or assimilated institutions, the account-keeper must also mention the nominal amount of the transferable securities referred to in Article 4,10 °of the Royal Decree of 26 May 1994.

⁴ As amended by the Royal Decree of 31 May 2017 amending the Royal Decree of 26 May 1994 on the collection and refunding of the withholding tax in accordance with chapter 1 of the Law of 6 August 1993 on transactions on certain securities.

2, 1st paragraph, 1) of the Regulation (EU) N° 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories, provided that, as direct participant of the NBB-SSS, the CSD holds only X-accounts and is able to identify the ultimate account holders (ultimate investor or beneficial owner).

This exception is subject to the condition that the contractual arrangements between Participants acting as CSD and their customers (indirect Participants) ensure that their customers (account holders) belong to one of the categories of investors listed in Article 4 of the Royal Decree.

In accordance with Article 4, last paragraph, of the Royal Decree, investors entitled to an X account can only open an X account.

Derogation: public debt securities referred to in Article 4, 10° of the Royal Decree.

For the categories of investors mentioned in Article 4, 3° and 10° of the Royal Decree, the Minister has published a notice containing a non-limitative list of the categories of investors authorised to hold an X account for the above-mentioned public debt securities⁵.

Investors not included in this list but consider that they belong to one of these specific categories may apply directly to the Belgian Tax Authorities.

This derogation is optional. It is granted only following an application for the opening of a securities account by the designated owner and is valid only from this application onwards, without any possibility of regularisation for the past. If the investor was already the holder of a non-exempt account (“N account”) or if he already held the securities outside the system, the withholding tax will be deducted from the incomes from movable assets accrued when the transfer to or deposit on the X account was made.

3.2. Operation of the X account

For the owners of an X account, the X/N operator executes the gross interest payments at the **due date of the coupon**. No withholding tax is collected on **accrued income** by transactions carried out between two due dates from X accounts.

A special feature with regard to the withholding tax for holders of an X account concerns the **entry** of securities into the system and the **exit** of these securities from the system.

⁵ Notice concerning the withholding tax, Moniteur belge/Belgisch Staatsblad of 1997-02-01, page 1963.

In the case of an **entry** on an X account, the X/N operator will create a separate Dedicated Withholding Tax Transaction for withholding the tax on the accrued income. The holder of the X account may recover this withholding tax in accordance with the ordinary tax law. The deposit may be made with exemption from withholding tax when the provisions of Article 13 of the Royal Decree of 26 May 1994 are applicable (see annexes 3.2a and 3.2b).

In the case of an **exit** from an X account, a refund of withholding tax is granted to the account-holder for the period of accrued income under the X/N tax law provisions. However, this refund is paid only upon the next due date for interest or upon final maturity (capitalisation bond or zero coupon). When income from movable securities is collected from securities which have been withdrawn from the system, the withholding tax will always be collected. As quickly as possible after an exit, the participant must send to the X/N operator the list of names referred to in Article 16, paragraph 1,3° of the Royal Decree (see point 7 below).

4. Securities Accounts not Exempt from Withholding Tax (N Accounts)

4.1. Opening of an N account

N accounts are intended for investors who cannot hold an X account. These investors are subject to individual or legal entities income tax, with the exception of the institutions referred to in article 4, 10° of the Royal Decree⁶.

4.2. Operation of the N account

On the **interests payment date**, the X/N operator creates a separate Dedicated Withholding Tax Transaction for withholding the tax on the gross income paid to holders of N accounts.

For **transactions between two interests payment dates**, the withholding tax is collected from the accrued income by a separate Dedicated Withholding Tax Transaction on the N account of the holder who sells the securities, and a refund equal to the withholding tax on the accrued income is granted to the holder of the N account who buys the securities.

5. Calculation of Accrued Incomes from Moveable Securities

Accrued incomes from movable securities are calculated according to the rules laid down by articles 8 to 11 of the Royal Decree.

⁶ See point 3.1 above.

The interest rate used for the securities issued on a discount basis is the weighted average annual yield on the first issue of the securities in question and not the average of the annual yields of each issue, so that the income reported by the X/N operator to the issuer in accordance with article 16, paragraph 1, 1° of the Royal Decree may differ from the amount of the expenses that the issuer may deduct.

The yield referred to in articles 8 to 10 of the Royal Decree must be calculated on the basis of the cost for the issuer. Exceptionally, account may be taken of commissions or other expenses when they result from a written issue agreement applicable without distinction to the entire loan and to all investors or intermediaries.

If the characteristics of the securities or the conditions of issuance do not correspond to those of the cases referred to in articles 8 and 9, the Minister of Finance or his delegate will determine the calculation rules by analogy.

The income from securities denominated in a currency which country of issuance has not adopted the euro in accordance with the Treaty establishing the European Union are, for the settlement of the withholding tax, converted into euros on the basis of the indicative rate for that currency published by the European Central Bank or the National Bank of Belgium on the Business Day before the tax date (Article 11 of the Royal Decree).

6. Forbidden Specific Transactions of an N Account

Deleted⁷.

7. Late Submission of Lists by Participants.

With regard to the postponed refunding connected with the withdrawal of securities from the system by an investor exempt from withholding tax, the X/N operator will recover the refund if, after the granting or payment of the income, the list of names referred to in article 16, paragraph 1, 3° of the Royal Decree (see annex 3.3) is not in its possession. First, the participant will be notified of the absence of this list 15 calendar days after the due date. If, within 5 NBB-SSS business days after this notification, the list has still not been provided, the withholding tax will be automatically recovered.

Except when Article 6 bis of the Royal Decree is applicable, the X/N operator will inform the Belgian Tax Authorities if financial institutions acting as account-keepers have not sent to it the list of names of

⁷ Art. 11 of the law of 6 August 1993.

all the holders of one or more securities accounts exempt from withholding tax during the past calendar year (Article 6 of the Royal Decree – see also 3.1 above).

8. Interest on Arrears

The provisions of article 414, paragraph 1 of the Income Tax Code 1992 with regard to arrears are applied to the withholding tax on the income paid on a due date. The amounts are settled by the Belgian Tax Authorities.

9. Procedure and Formalities Relating to Tax Corrections

The provisions mentioned here revoke and replace all preceding regulations concerning corrections, including those mentioned in circular 4/96.

The X/N operator is authorised to carry out the corrections which are necessary in accordance with the rules laid down by the Belgian Tax Authorities and/or at the request of participants.

Any participant may request the correction of an error by means of a correcting notification sent to the X/N operator by e-signed e-mail (see annex 3.4), providing a motivation with the data concerning the transaction(s) giving rise to the correction.

The X/N operator verifies the requested corrections, including, if necessary, with the other party. If no adequate response is received within five NBB-SSS business days to a request for additional information, or if the X/N operator considers that the information supplied is insufficient, the correction is refused and the X/N operator, if appropriate, informs the Direct Tax Department and the relevant participant(s).

When a correction concerns a transaction which has already been settled and which can no longer be rectified by means of a correcting notification and the associated “tax correction date” by e-signed e-mail, a participant who does not wish to make the correction request to the Belgian Tax Authorities himself requests the X/N operator in writing to make the correction. He must motivate the request with the data concerning the transaction which has given rise to the correction.

As appropriate, he will provide additional information and/or supporting documents for this purpose.

The X/N operator will make the correction after having verified the transactions relating to the correction, in order to ensure that all related transactions are corrected in a consistent manner, with the agreement of the other parties concerned. Where appropriate, the operator will transmit the required information,

especially the history of the transaction to be corrected and the necessary supporting documents, to the Belgian Tax Authorities.

When requests for corrections are refused, for whatever reason, by the Belgian Tax Authorities, the Participant will accept the reversing of the entries without being entitled to claim any compensation from the X/N operator.

10. Coding of X/N Transactions

First Character	Second Character
Reason for Transaction	Nature of Transaction
1. Current transaction	1. Debit of N Account
5. Cancellation	2. Credit of N Account
9. Correction	3. Entry Materialised Security in X Account
	4. Exit Materialised Security from X Account
	5. Payment of Coupon
	6. Interest Income of a Security Without Coupon
	7. Redemption Premium

In the e-mail giving the details of the withholding tax, this code is preceded by the letters XN.

11. Coding of the Details of the Withholding Tax (see Annex 3.5)

The e-mail giving the details of the withholding tax is sent on the first bank working day following the date on which the withholding tax was paid. This e-mail consists of three parts:

A. Withholding tax paid with the settlement system transactions:

a) Current transactions:

XN11, XN12, XN13, XN15, XN16 and XN17;

b) Deferred payments of withholding tax:

- XN14;

- XN12 in cases of lifting of suspension of a withholding tax refund;

B. Withholding tax paid outside the NBB-SSS:

this relates to cancellations and corrections, i.e. X/N transactions which first code character begins with 5 or 9;

- C. Withholding tax which is not paid immediately:
- a) withholding tax refunded on the next due date:
 - XN14 and XN94;
 - in cases of suspension of refunding of withholding tax: XN12 and XN14;
 - b) withholding tax not refunded owing to a cancellation:
 - XN12 and XN14 cancelled before payment for them has actually been made.

Each part of the e-mail (A, B and C) is sent only when one or more transactions have taken place.

In order to facilitate the internal checks of the recipients of the e-mail, the e-mail mentions, by value date and ISIN code, the year and dispatch number, the code of the X/N transaction, the nominal amount to which the transaction relates, the amount of income on which the withholding tax is calculated and the amount of the withholding tax. While the nominal amount and the amount of income are denominated in the currency of the security, the withholding tax is denominated in euros.