

**CIRCULAR TO:**

**ALL MEMBERS**

**NO: 73/2000**

**GST IMPLEMENTATION AT SFE**

**EXCHANGE FEE**

The Exchange previously reminded Members that the liability for payment of exchange fees currently rests with Full Members of the Exchange, although the fees are, in practice, collected from Clearing Members. The Exchange Board is now proposing that the obligation to pay exchange fees fall on Clearing Members as principal from 1 July 2000 (i.e. no longer as agent of Full Members). A proposed amendment to the Exchange's Constitution to achieve this outcome will be considered at the Annual General Meeting on 27 April 2000.

The effects of Clearing Members being made liable, as principal, for exchange fees will include: No change to existing collection procedures (i.e. fees will continue to be paid by Clearing Members to the Clearing House with the Clearing House collecting these fees as agent of the Exchange; and Clearing members, rather than other members for whom they are clearing, will be entitled to input tax credits in respect of these fees

**EXCHANGE FEES**

**How will GST impact the Exchange execution fee?**

The Exchange previously advised Members that the exchange fee is a taxable supply and therefore will attract GST. The Exchange Board meeting on 29 March, 2000 resolved that GST of 10% is to be added to the execution fee, bringing it to \$0.99 as from 1 July 2000. This price complies with the ACCC guidelines.

**Exchange Fee Structure and Rates**

<b>CONTRACT</b>	<b>Pre 1 July, 2000</b>	<b>GST component</b>	<b>Post 1 July, 2000 (GST inclusive)</b>
<b>Contracts Cleared Rate Per Contract</b>			
Contract Registration	\$0.90	\$0.09	\$0.99
Registration of Futures Contracts Resulting from Exercised Options	\$0.90	\$0.09	\$0.99
Option Abandonments	\$0.00	\$0.00	\$0.00
Mandatory Settlement	\$0.90	\$0.09	\$0.99
Exchange for Physical	\$12.50	\$1.25	\$13.75
<b>Contracts Delivered Rate Per Contract</b>			
90 Day Bank Accepted Bill Contract	\$2.00	\$0.20	\$2.20
Greasy Wool Contract	\$0.00	\$0.00	\$0.00
Wheat Contract	\$0.00	\$0.00	\$0.00
Individual Share Futures Contract	\$0.00	\$0.00	\$0.00

## **When will GST be charged by the Exchange to members on Exchange fees, will it be on a transaction by transaction, daily, or monthly basis?**

The Exchange previously advised Members that GST is essentially a transaction tax and as such, GST should be charged or identified on a transaction by transaction basis. On behalf of Clearing Members, the Exchange will produce a Tax Invoice on a monthly basis which will detail the total fee obligation as well as the GST amount. Clearing Members will be able to use this when claiming an Input Tax Credit from the ATO.

## **Who will be responsible for paying GST on exchange fees to the ATO?**

The Exchange previously advised that the Exchange charged a fee to Full Members for each trade executed. This fee would attract GST and the Exchange would remit the GST to the ATO and would provide a Tax invoice to the Full Member. In turn, each Full Member would be responsible for invoicing GST, where appropriate, on these fees to their clients.

As mentioned above, from 1 July, 2000 it is proposed that the Exchange will charge the GST-inclusive execution fee directly to the Clearing Member for each trade executed by the Full Member. The Exchange will remit the GST to the ATO. The Exchange will provide a Tax Invoice to the Clearing Member. The Clearing Member will be responsible for invoicing GST, where appropriate, on these fees to the underlying client. The primary liability for the execution fee will shift from the Full Member to the Clearing Member.

The Exchange will charge \$0.99 for each side, including the \$0.09 GST to be remitted to the ATO. Locals with trading rights will be rebated \$0.55 a side, through their respective Nominating Members to result in a net fee at present of \$0.44 (including GST). The Exchange will remit \$0.04 a side GST to the ATO. The daily advice of fees through Clearing reports to Clearing Members will be based on \$0.99 a side.

## **COMMISSION**

Under the GST Legislation commissions are a taxable supply. All commission amounts entered into STACS by Members will be taken to include GST. It is therefore essential that members take account of this when entering commissions into STACS.

## **Will there be any system changes made to current Exchange systems that will affect the data received by Exchange Members?**

There will be no changes made to any data feeds received by either Clearing Members or Back Office Accounting Suppliers. All file structures will remain unchanged, as will the data contained in these files. As previously advised, all commission amounts entered into STACS will need to be entered in as a GST inclusive amount.

## **Brokerage Commission**

### **How will the Exchange administer the commission that passes between members?**

The Exchange previously advised that we were looking into the possible solutions and legalities associated with issuing a monthly tax invoice on behalf of the Members.

The Exchange has received advice that it is able to produce a Tax Invoice on behalf of the Members. The Tax Invoice will show the total Commission obligation and a separate calculation of the GST component of the obligation. Members will be able to use this Tax Invoice to claim any tax credits due. The Fees & Commissions Monthly Report that is currently distributed to each Member will be attached to the Tax Invoice for the purpose of providing the breakdown of the aggregated Commissions earned and owed. The Member will be responsible for remitting the GST to the ATO.

## **When will GST be charged on brokerage commission, will it be on a transaction by transaction, daily, or monthly basis?**

The Exchange previously advised that further analysis was being performed to identify the most efficient way of producing a single Tax Invoice on a monthly basis on behalf of Members in relation to brokerage commission which will be a consolidation of all the daily transactions.

Daily statements of the transactions will continue to be provided to members. The Clearing House will continue to provide the service of multilaterally netting the Commissions paid from one Member to another. The Commission amount entered into STACS by the Broker must be inclusive of GST.

The Clearing House will produce a Tax Invoice on behalf of each Member who is a party to commission transactions. The Tax Invoice produced will show the aggregated Commissions earned and owed, separating out the GST component.

It will be the responsibility of the Member to remit the identified GST amount to the ATO.

## **ACCOMMODATION FEES**

### **What is the GST treatment of the accommodation fee charged by the SFE Clearing House?**

Clearing Members as a group provide a guarantee to the SFE Clearing House in the form of cash and letters of credit. The Clearing House in turn pays Clearing Members an accommodation fee. The accommodation fee is set by the Clearing House Board each year in order to provide a reasonable return to members having regard to the risks and exposures involved.

For GST purposes this is considered to be a form of guarantee or indemnity and therefore, a financial supply by the Clearing Member to the Clearing House. Accordingly, the fee should not be subject to GST. PricewaterhouseCoopers has reviewed the existing available documentation and concur with this view.

## **DELIVERABLE CONTRACTS**

### **When is GST charged on a deliverable contract?**

GST is payable on the settlement prices in regard to a deliverable commodity contract such as wool futures and wheat futures. No GST is payable on "cash settled" contracts. Further details are set out in SFE Circular 346/99.

On 19 November 1999, the Exchange sought clarification from the Australian Taxation Office (ATO) as to the GST status of options over wool futures and wheat futures. In a GST Private Ruling to the Exchange dated 4 April 2000, the ATO has said that the supply of an option over a deliverable wheat or wool futures contract traded on the Exchange is a taxable supply, i.e. it has the same status for GST purposes as other options to make or receive taxable supplies.

The notes to the GST regulations describe the regulation relating to options as having the effect that "GST is payable on any premium on a deliverable commodity derivative and the price on settlement" (of the futures contract that comes into existence when the option is exercised) "when the commodity is delivered".

### **What is the position regarding the issuing of tax invoices by the seller when the seller does not know the identity of the ultimate buyer?**

The Exchange is exploring possible solutions so that the Exchange can administer the invoicing arrangements on behalf of Members by means of Recipient Created Tax Invoices.

The Exchange has sought a determination from the ATO to permit the Clearing House to issue a Recipient Created Invoices to the seller's clearing member-broker, and in turn for invoices to be issued by the clearing broker and seller's executing broker. This has yet to be confirmed.

## MEMBERSHIP FEES

Membership is a taxable supply. The impact of GST on fees is set out in the table:

*(All fees detailed are in \$AUD)*

Membership class	Pre 1 July, 2000	GST component	Post 1 July, 2000 <i>(GST inclusive)</i>
<b>Full Member</b>			
Application fee	\$1000.00	\$100.00	\$1100.00
Annual Subscription	\$10,000	\$1,000	\$11,000
<b>Full Associate &amp; Public Dealer Associate</b>			
Application Fee	\$500	\$50	\$550
Annual Subscription	\$2,000	\$200	\$2,200
<b>Introducing Broker Associate &amp; CTA Associate</b>			
Application Fee	\$500	\$50	\$550
Annual Subscription	\$1,000	\$100	\$1,100
<b>Market Associate</b>			
Application Fee	\$200	\$20	\$220
Annual Subscription	\$2,000	\$200	\$2,200
<b>Local Member</b>			
Application Fee	\$100	\$10	\$110
Annual Subscription	\$2,000	\$200	\$2,200
<b>Trading Permits</b>			
Monthly rate (payable quarterly)	\$1,250	\$125	\$1,375

### References to prior Circulars:

No. 48/2000	Member Briefing GST Implementation at SFE
No. 346/99	GST on Deliverable Commodity Futures Contracts
No. 317/99	Impact of GST on Pricing of Deliverable Wheat and Wool Futures Contracts
No. 303/99	Application of GST to Futures
No. 286/99	GST on Deliverable Futures Contracts

**BRETT YOUNG**  
DIRECTOR, ADMINISTRATION  
& PROFESSIONAL SERVICES

**MALCOLM STARR**  
DIRECTOR, LEGAL & COMPLIANCE

If you have any queries regarding the implementation of GST related to Exchange's operations, please forward via email to [sfegst@sfe.com.au](mailto:sfegst@sfe.com.au) where they will be recorded and referred to the appropriate person within the Exchange for response as soon as possible.