



European Forum of Securities Associations

EFSA members:

- Asociación de Mercados Financieros (AMF)
- Association for Financial Markets in Europe (AFME)
- Association française des marchés financiers (AMAFI)
- Associazione Italiana Intermediari Mobiliari (ASSOSIM)
- Bundesverband der Wertpapierfirmen (bwf)
- Danish Securities Dealers Association (DSDA)
- The Polish Chamber of Brokerage Houses (IDM)
- Swedish Securities Dealers Association (SSDA)

Address details

9 September 2014

Enhanced Cooperation Financial Transaction Tax

Dear (Name),

In light of the recent negotiations on the proposed Financial Transaction Tax and the expected discussions at the Informal ECOFIN meeting on 13th September, members of the European Forum of Securities Associations (EFSA) – which is the European body for trade associations that represent firms active in the securities market – are writing to you to express concerns about the implications of the proposed tax.

At the 6th May ECOFIN the Member States that have been seeking to develop an FTT confirmed their commitment to make a further step by agreeing that such a tax should be put in place by January 2016 and that its scope would encompass shares as well some derivatives.

As has been supported by a range of studies on the impact of the FTT, in our opinion the introduction of the FTT would act as a brake on economic recovery and have severe negative impact on the financial markets in EU. We therefore remain fully opposed to the introduction of an FTT and believe that such a tax will have a significant negative impact on the end-users of financial services, such as corporates and investors.

In particular, the tax will have a significant impact on liquidity, amplified by the so-called cascading effect of the proposed tax. As a recent study by Oliver Wyman (attached) shows, the cascading effect of the tax is so large as there are typically several trades needed between dealers and intermediaries to facilitate a single transaction with an end-user client, each of which would be taxed under the current proposal. Oliver Wyman expects that only a fraction of the tax can be absorbed by dealers themselves.

Services of intermediaries are a critical component of the liquidity that investors need to make their investments which is a fundamental aspect of market confidence. Other transaction taxes, which are currently already in place in some European countries such as France, Italy and the UK have recognised the important role of intermediation and have provided exemptions for intermediation activities. Also the European Parliament, in its resolution of the 3rd July 2013 on the enhanced cooperation FTT, called on the Member States to recognise the importance of intermediation by providing an exemption from the

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FTT for market making activities (see amendment 33, article 3 – paragraph 2 – point cb (new)).

Overall, the tax would increase costs to end-users of financial services such as corporates and investors. Oliver Wyman shows that while end-users are not the intended targets of the proposed tax, they are likely to bear heavy costs, which have been underestimated to date. The FTT will increase the cost to businesses of raising finance and will also lead to a significant reduction in income generation from long term savings and corporate investments.

The report estimates total costs to end-users of €30-50bn per year, comprised of direct taxes, cascade effects where intermediate transactions are taxed, and liquidity effects. This is explained in more detail on pages 3, 4 and 5 of the report. Whilst the Oliver Wyman report focuses on a wide-scope FTT, it also includes an overview of the impact of some domestic FTT regimes (see page 61) and notes some previously conducted studies on the impact of domestic FTTs. This all shows that, even if certain asset classes are excluded from the scope of the FTT and even if at the same time market makers are exempted, FTTs nonetheless have a significant negative impact on end-users by increasing the cost of capital for companies and reducing the value of assets for investors.

Also of particular concern to end-users is the negative impact of an FTT on the derivative markets. Derivatives allow corporates and investors to hedge unwanted risk exposures efficiently and to focus on core business activities. The application of an FTT to some derivative transactions, either as a first or subsequent step, would thus have highly damaging effects for EU11 companies and the wider economy. Oliver Wyman predicts a significant increase in the annual cost of managing risk for corporates and investors in the EU11 – conservatively estimated at around €5-15bn annually across interest rate and foreign exchange derivatives. Worked examples are set out on pages 43 and 44 of the report. Additional costs would be faced for hedging other types of risk. Beyond this, an FTT on some derivatives would greatly impact the competitiveness of, and impair the provision of derivatives services by, EU11 banks, with potential knock-on effects on the pricing, and thus again competitiveness, of other services that they are able to offer to their clients.

In addition to the economic implications, we understand that material doubts have been raised regarding the legal certainty of the proposals as a whole, and in particular with regard to derivatives, and there remains the possibility, recognised in the recent ECJ ruling, that the substance of the proposals may be subject to challenge by one or more Member States if the EU11 ultimately decide to proceed with a tax.

For these reasons we are opposed to the proposed tax and believe that it would have a detrimental impact on Europe's financial markets and the economy as a whole. We would be happy to discuss, of course, these issues with you in more detail.

Yours sincerely,

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AMF – ASOCIACIÓN DE MERCADOS
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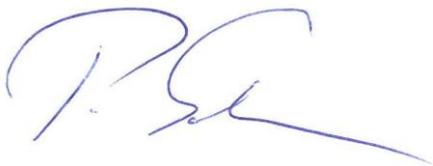
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