ICSA
INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

16 April 2013

Algirdas Šemeta
Tax Commissioner
European Commission
B-1049 Brussels, Belgium

Re: Proposed Financial Transaction Tax under Enhanced Cooperation

Dear Commissioner Šemeta:

We are writing to you on behalf of the members of the International Council of Securities Associations (ICSA), which is the global body for trade associations and self-regulatory organizations that represent and/or regulate firms active in the securities market.[1] The purpose of the letter is to express our strong concerns about the implications of the recently proposed financial transactions tax (FTT) which is to be implemented by 11 EU Member States. Broadly, we believe that the FTT as envisaged would negatively impact economic growth both in Europe and globally, would have the unintended consequence of increasing market volatility while also reducing investment in European financial instruments and firms, and would also have an extraterritorial impact since the manner in which non-residents would be taxed under the residency principle would be a departure from international norms.[2]

Regarding the impact of the proposed FTT on economic growth, we note that the empirical evidence suggests that these taxes impede the efficiency of financial markets, leading to a reduction in liquidity and an increase in the cost of capital, which in turn reduces economic growth. Indeed, the adverse economic impact of the FTT may be considerably greater than anticipated by the Commission, as its impact assessment did not include the many additional costs and distortions that the taxes are likely to introduce. For example, as a direct result of the design of the proposed FTT, economically important short-term financing and risk management activities would be subject to disproportionately large deleterious effects. In addition, because of the way in which derivatives are to be taxed, the ability of firms within the FTT zone to engage in hedging activities would be extremely limited, thereby reducing the competitiveness of those firms.

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[1] ICSA's members come from a broad range of jurisdictions and represent and/or regulate firms active in all of the major developed financial markets as well as a number of advanced emerging market economies. ICSA's objectives are: (1) to encourage the sound growth of the international securities markets by promoting harmonization in the procedures and regulation of those markets; and (2) to promote mutual understanding and the exchange of information among ICSA members. More information about ICSA can be found at: www.icsa.bz

[2] DSDA, IIAC, JSDA, SIFMA and a number of other ICSA members have further reservations about the jurisdictional basis for the European Commission's proposal to tax securities issued and traded in other markets under the issuance principal.

Finally, unlike the existing financial transaction taxes currently in effect in the UK, France and Italy, the proposed FTT does not provide any exemption for market-making activities. As a consequence, the FTT would have a "cascade effect" that would significantly increase the cost for financial intermediaries to provide liquidity to financial markets within the FTT zone, which in turn would raise costs for the individuals and firms that use those markets.

In addition to the direct impact of the taxes on European economies, work carried out in 2010 and 2011 by the IMF found that financial transactions taxes were not a useful tool for stabilizing financial markets or for curbing financial market excesses, although that is one of the stated aims of the proposed FTT.[3] Other studies have found that financial transaction taxes may actually increase volatility and reduce liquidity in markets where they have been implemented.[4] In short, the empirical evidence suggests that financial transaction taxes hurt both the financial and the real sectors of the economy. For all of these reasons, we suggest that the economic cost of the proposed FTT, if implemented as designed, would be far greater than the Commission's impact assessment assumes and, quite possibly, greater than any revenues derived from the tax.

We are particularly concerned about the impact of a FTT at the current time when economic growth remains stagnant in many countries around the world. This is a critical issue in the EU, which continues to experience declining economic growth rates along with a sovereign debt crisis and lack of confidence in the banking sector in a number of countries. Indeed, the FTT is being proposed at the very time that the European Commission's own economists are projecting that the eurozone will contract 0.3% in 2013. For this reason alone we suggest that the imposition of the proposed FTT would be particularly ill advised at the current time.

Finally, we are also concerned about the extraterritorial impact of the proposed measure arising from the residency principle.[5] The proposed FTT would have a broad global impact, including potentially leading to a double taxation of financial institutions both within and without the FTT zone as well as to a reduction in liquidity in financial markets outside of the FTT zone. As a result, the cost of capital for all investors, including retirees, would be increased, leading in turn to a reduction in economic growth in countries outside of the FTT zone without any offsetting increase in revenues for the home governments. Alternatively, and probably most likely, both European and international investors may decide to further limit their investments in European securities and their transactions with European financial firms, which in turn would further reduce market liquidity and economic growth within Europe.

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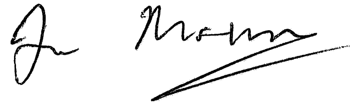
3 The IMF' found in 2010 that FTTs are not useful for stabilizing financial markets since they do not focus on the core sources of financial instability – such as institution size, interconnectedness, and substitutability – which the IMF found to be the main sources of the financial crisis. See Stijn Claessens, Michael Keen, Ceyla Pazarbasioglu, 2010, *Financial Sector Taxation: The IMF's Report to the G20 and Background Materials* (Washington, D.C.), pg. 17. See also Thornton Matheson, 2011, *Taxing Financial Transactions: Issues and Evidence*, IMF Working Paper (Washington, DC), pg. 26.

4 See Anna Pomeranets (Autumn 2012), "Financial Transactions Taxes: International Experiences, Issues and Feasibility,*" Bank of Canada Review*, pg. 12.

5 We note again that a number of ICSA members are opposed to both the proposed residency-based taxation and the proposed issuance-based taxation on the grounds that both diverge from international norms and are therefore extra - territorial.

For all of the reasons outlined above, we are strongly opposed to the proposed measures and believe that they would not be beneficial for Europe as a whole. We would be happy to discuss these issues with you in more detail.

Best regards,



Jong Soo Park, Chairman
International Council of
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Ian C.W. Russell, Chairman
ICSA Standing Committee on
Regulatory Affairs

cc: Mr. Michael Noonan, Finance Minister of Ireland
and Chair, ECOFIN Council of Finance Ministers