European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

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E-MAIL

Subject : Commission's Proposal on Financial Transaction Tax

Dear Sir. Bergmann,

The discussion in the meeting of the Economic and Financial Affairs Council (Ecofin) on the proposal of the Commission for a Financial Transaction Tax (FTT) directive showed, that there will hardly be any common ground among the 27 Member States in the foreseeable future. The EACB understands some of the underlying reasons of the Proposal, namely limiting undesirable market behavior and stabilizing markets. Nevertheless, EACB expresses its deep concern about this Proposal which would have detrimental effects on the financial sector and would affect the whole European economy. Furthermore the EACB has serious doubts that the FTT Directive would meet the objectives set by the Commission.

The FTT is meant to discourage risky trading activities and complement regulatory measures aimed at avoiding future crises. But it will create market disruptions and it will reduce market liquidity. This would increase speculation which is contrary to the aim of the FTT.
Rather the EACB reckons this tax would not target any of the key attributes that increase systemic risk and would not address major market failures which led to the financial crisis.

It would also create a strong incentive to delocalize the financial transactions towards other less regulated international financial centers (US and Asia). Indeed delocalization of financial transactions would be easier to achieve for operators in Europe if the UK or other European countries are out of scope. The EACB fears this would create a two-tier financial sector in the EU.
Furthermore the tax will have to be implemented at a global level. Nevertheless it is not expected that all major financial centers worldwide, including London, New York or Singapore will introduce the FTT. An unexpected macroeconomic loss is thus expected. In addition, the FTT implemented only by a few Member States would probably worsen the effects described here.

Moreover the FTT may result in massive disappearance of certain activities. It will lead to a disincentive to use derivatives. The Commission impact assessment stated that 90% of the derivatives could be relocated as a result of the implementation of the FTT in the EU. The EACB strongly opposes to such a consequence of the financial transaction tax which would have significant impact and unintended consequences for the whole European economy.
The Commission Proposal on FTT aims to raise significant additional tax revenue from the financial sector. However, we fear that the financial transaction tax would not generate stable tax revenue neither at national nor at the European level. The EACB thinks the example of the Swedish tax experiment should be considered attentively. In

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January 1984, Sweden introduced a 0.5% tax on the purchase or sale of an equity security. This resulted by a fall of 98 percent of the trading volume of futures and options. The volume of issued bonds also decreased of 50 % and moved to England. These results to raise only 50 million crowns instead of the 1.5 billion crowns expected. The EACB thinks similar effects are expected.

The Proposal aims to ensure that the financial sector makes a fair contribution to public finances. This implies the underlying assumption that the financial sector is currently under-taxed by comparison to other sectors. Nevertheless financial sector already bears significant costs of hidden VAT and already makes a substantial contribution to national tax revenues through corporate taxation, income taxes for employees and through national bank levies.

Moreover the VAT exemption for banks does not lead to a tax advantage for them. It is rather the contrary. A recent study prepared by the auditing company PWC[1] set out the details of such a disadvantage.
It is said in this report that up to €33 billion Euro per annum of irrecoverable VAT is estimated for the banking sector in the EU because under the current VAT exemption system, banks do not charge their customers VAT, but in return they cannot recover VAT on costs they incur.

The tax will also lead to dissuasive effects for non EU investors: when making the choice whether to enter into a transaction with an EU-financial institution. Investors from outside the EU would take into account the supplementary cost represented by the tax burden. Therefore, this tax would have a distortive effect for the financial market in the EU and lead to a competitive disadvantage *vis-à-vis* operators located in other areas of the world.

In addition the highly complex execution of the FTT would imply an administrative burden for banks relatively small in size.

The EACB invites the European Parliament and the Council of the European Union to dismiss the Proposal on the basis of the above-mentioned arguments. However should the tax be introduced, then additional exemptions from the tax should be introduced. Furthermore we invite the Commission to elaborate different scenarios/ hypothesis on its impact assessment where some Member State may decide to not support the FTT.

Yours sincerely,

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[1] http://www.pwc.com/gx/en/financial-services/the-real-impact-of-the-vat-exemption-on-eu-banks.jhtml