ISDA® Safe, Efficient Markets

Mr. Stuart Stoner
Clerk of the European Union Sub Committee on Economic and Financial Affairs and International Trade
House of Lords
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11 November 2011

Dear Mr. Stoner,

Ref.: Financial Transaction Tax: Call for Evidence

The International Swaps and Derivatives Association's (ISDA[1]) European Tax Committee welcomes the opportunity to respond to the inquiry issued by the House of Lords European Union (EU) Sub Committee on Economic and Financial Affairs and International Trade, chaired by Lord Harrison, calling for evidence and explanation about the proposed EU Financial Transaction Tax ("FTT").

ISDA writes to you to express its strong opposition to the imposition of a FTT. ISDA believes that the proposed European Union financial transaction tax would be harmful to the financial sector, fund entities, corporates and individuals alike.

Our response to your specific questions is attached as an appendix to this letter. Our key concerns are:

- The derivatives industry provides important risk management tools helping to achieve growth in the economy. It serves a variety of corporations and entities, of all sizes, which use derivatives products to manage risk, including interest rate, currency, credit and counterparty risks.

- Derivatives facilitate capital raising in markets with different currencies and interest rate profiles from that of the issuer because of the ability to hedge through the use of cross currency and interest rate derivatives.

[1] Since its founding in 1985, ISDA has worked to make over-the-counter (OTC) derivatives markets safe and efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. ISDA has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has more than 800 members from 55 countries on six continents. These members include most of the world's major institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on OTC derivatives to efficiently manage the financial market risks inherent in their core economic activities. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of ISDA toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework.

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- ISDA is concerned that the FTT could ultimately increase the costs of hedging those risks. In some cases, that could lead to risks being left unhedged. We believe that managing such risks is essential for the long-term economic growth and recovery of European economies. Derivatives are vital to exporting and importing businesses and those with an exposure to commodity prices, and also underpin activities as diverse as the as fixed rate mortgages and fixing of gas and electricity prices.

- The financial services are a mobile, global and highly competitive sector. The European Commission's (EC) impact assessment points out that Europe would loose 10% of its securities markets, 40% of its spot currency market and between 70-90% of its derivatives market if the FTT were introduced.

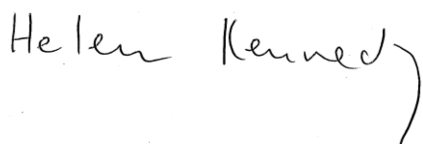
- There is no evidence of under-taxation of financial institutions within the EU. These institutions make a major contribution to corporation tax revenues and their employees make a similarly significant contribution to payroll taxes on the same basis as corporations and employees in other sectors. In addition banks operating in the UK have recently made additional contributions to taxation revenues via the bank payroll tax and now the banking levy.

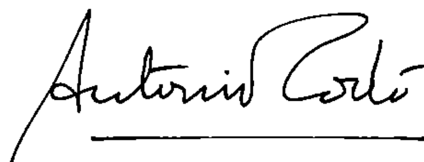
- We believe that the proposed tax will increase capital costs, reduce investment, reduce real wages and reduce GDP. We believe that the Commission's assessment has underestimated the impact on GDP and overestimated the revenues expected from the FTT. We believe that this tax will impact secondary markets too, including sovereign bonds, creating volatility.

In the appendix attached hereto, we have responded to the applicable questions included in the Call for Evidence.

We hope you find ISDA's comments useful and informative. Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours faithfully,





Helen Kennedy
Chair of ISDA European Tax Committee

Antonio Corbi
ISDA Risk and Research

Appendix:

Call for Evidence – General Questions on Financial Sector Taxation

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Call for Evidence – General Questions on Financial Sector Taxation

Q 1.Is there a case for the introduction of a tax on financial transactions? Does the current exemption from VAT for most financial and insurance services lead to a tax advantage for the financial sector?

We do not believe that the introduction of a tax on financial transactions along the lines proposed by the European Commission produces a fair basis for the taxation of the financial sector. In fact we believe that the proposal will produce distortions in the operation of the financial sector and additional costs for end-users of banking products including derivatives.

The current system of VAT exemption for many transactions entered into by financial institutions results in irrecoverable VAT suffered on goods and services consumed by those institutions. This provides a significant contribution to tax revenues from the banking sector. It is the case that VAT is not accounted for as output tax by the financial institutions themselves and therefore consumers do not pay VAT on financial service fees. In other words, the VAT exemption benefits the users of financial services, rather than financial institutions.

The difficulties of devising a scheme for calculating an appropriate margin on which to impose VAT on financial products raise the question of whether the imposition of VAT on financial products would result in an overall increase in VAT revenues. Indeed, the Commission's own documentation from 2007 and 2008 discussing potential changes to the exemption suggested that such a change would reduce inefficiencies for the financial sector but broadly neutral for VAT revenues as a whole.

There is no evidence of under-taxation of financial institutions within the EU. These institutions make a major contribution to corporation tax revenues and their employees make a similarly significant contribution to payroll taxes on the same basis as corporations and employees in other sectors. In addition banks operating in the UK have recently made additional contributions to taxation revenues via the bank payroll tax and now the banking levy.

Q 2. What would be the most appropriate form for a taxation of the financial sector? Would a Financial Activities Tax (FAT) be a preferable means of taxing the financial sector? Would other variations (e.g. a currency transaction tax, a securities transaction tax or a financial tax on derivatives) be a more desirable form of taxation?

ISDA believes that an FTT on financial transactions and in particular on derivatives would be harmful to the financial and non-financial sectors alike. The derivatives industry provides important risk management tools helping to achieve growth in the economy. It serves a variety of large, medium and small corporations and entities, which use derivatives products to manage risk, including interest rate, currency, credit and counterparty risks. ISDA is concerned that the FTT will ultimately increase the costs of hedging those risks. We believe that managing such risks is essential for the long-term economic growth and recovery of

European economies. In some cases, we believe that the tax could lead to risks being left unhedged.

The introduction of additional taxes (FTT or FAT) on the financial sector also risks reducing the capital base of financial institutions at a time when regulators are demanding higher capital buffers. Additional costs passed on to customers as a result of this taxation would act as a barrier to accessing the financial markets, as well as restricting liquidity (and therefore increasing volatility) in those markets.

We would also suggest that a well-designed taxation system applies across the economy, to all sectors and businesses. Targeting particular sectors is, by definition, going to be distortive and create difficult boundary issues and scope for avoidance.

Q 3. What lessons can be learnt from the experience of other countries (such as the transaction levy introduced in Sweden in 1984 and abolished in 1991) in relation to a financial sector taxation scheme?

The risk of relocation of cross border business outside the EU is acknowledged by the Commission (clearly based on Sweden's experience when it introduced a tax on equity and debt securities transactions in the late 1980's). However the Commission's estimation of the economic impact of this relocation on such a significant international financial centre as the City of London is understated. Derivative and currency transactions markets are integral to many other financial transactions which would also relocate to countries where the cost of doing business is lower.

Even in relation to EU business (which will be ring fenced within the FTT zone by the operation of a "reverse charge" on transactions) the Commission's paper does not take into account the cumulative cost of FTT as it cascades down the various stages of trading and settling transactions. One example of this is the exchange traded derivative markets where the execution and clearing arrangements create multiple layers of charge (even though the clearing houses are themselves exempt). Even when entering into a simple OTC derivative, a bank will generally seek to hedge itself through further transactions, and some of the parties it transacts with will in turn hedge themselves – resulting in another cascade of FTT charges. Similar effects will arise in the context of financial instruments. It is, therefore, inconceivable that these markets would continue to operate in the same way as they currently do. The end result is smaller, less liquid markets for financial institutions and end users continuing to trade within the EU.

The blow to the Swedish economy as a result of the introduction of a FTT was alarming and not merely imagined. Sweden's FTT was collected from 1984 to 1991 and resulted in between 90 and 99% of trades in bonds, equities and derivatives moving from Stockholm to London. This was an expensive lesson for Sweden and this experience should be sufficient to prevent Europe from making a similar mistake.

We are aware that the Commission and others have suggested that a lesson of UK stamp duty is that transaction taxes are not in fact incompatible with a successful financial services industry. This is not the place to repeat the well-rehearsed arguments about whether stamp

duty in fact costs more in growth than it raises in tax. We would, however, stress that the point is entirely misplaced – stamp duty is different from the financial transaction tax in two very significant ways. First, stamp duty does not generally apply to financial intermediaries – it only applies to the end purchaser of securities and does not "cascade". Second, and crucially, UK stamp duty applies to purchases of UK equities regardless of where the buyer and seller are located. There is no incentive for the parties to relocate – which is why UK stamp duty continues to contribute a meaningful amount to the UK Exchequer. The proposed EU FTT, however, applies where a party is located in the EU - so it positively incentivises relocation outside the EU.

We would also note that France had an 'impot de bourse' tax which was abolished a few years ago. We are not in a position to articulate why the French administration abolished it, nor do we have data on how much it collected. However, we are aware of some difficult issues prior to it being abolished in relation to its scope in particular where it may have applied to foreign /non French transactions which had led to ways in which transactions with French investors in non French shares had to be executed to ensure that the tax did not arise.

Q 4. What is your assessment of the Commission's objectives as contained in its proposal for an FTT? Are they fair and appropriate?

The Commission has stated three main objectives:

a) "to avoid fragmentation in the internal market for financial services, bearing in mind the increasing number of uncoordinated national tax measures being put in place". However, given that (as far as we are aware) no member state has proposed an FTT, it is unclear how the proposed Directive will assist in this regard.

   The principal measures that have been proposed are bank levies and, whilst these have presented double (and indeed multiple) taxation problems, the FTT Directive is of no relevance to them. It is therefore hard to avoid the conclusion that this objective is registered to assist compliance with Article 113, which provides for indirect tax measures to be adopted where "harmonisation is necessary to ensure the establishment and the functioning of the internal market and to avoid distortion of competition."

   We would agree with the Chancellor of the Exchequer when he said at the Council of Ministers on 9 November that the EU's energies would be better spent harmonizing bank levies.

b) "to ensure that financial institutions make a fair contribution to covering the costs of the recent crisis and to ensure a level playing field with other sectors from a taxation point of view".

   The difficulty with the first half of this is that the "financial institutions" subject to the FTT include many entities that bear no responsibility for the financial crisis and which received no taxpayer support. This includes pension funds, unit trusts, holding companies, and leasing companies, for example.

The difficulty with the second half is that no evidence is provided that there is an unequal playing field (save for some papers which erroneously suggest that the financial sector suffers an advantage from current VAT rules).

c) "to create appropriate disincentives for transactions that do not enhance the efficiency of financial markets thereby complementing regulatory measures aimed at avoiding future crisis”

It is not clear the disincentives created by the FTT are at all aligned with current regulatory measures. For example, the FTT discourages parties to derivatives depositing securities as collateral (as those deposits will in most cases be subject to FTT charges, 10bp on each transaction party when deposited and 10bp on each transaction party when returned, i.e. 40bp in total).

The FTT will also, as noted in our answer to question 3 above, disincentivise the use of exchange traded derivative markets.

There is of course another key objective, to raise direct funding for the EU – but this is a political question on which we make no comment other than to note that, even if the principle were politically acceptable, it would seem imprudent for the EU's budget to become dependent upon one sector of the economy.

Q 5. Does the Commission proposal for an FTT reflect the most desirable design for an FTT?

It seems to us that financial transaction taxes in the forms usually proposed have two serious flaws. First, they cascade (as noted in our answer to question three above). Second, unless introduced globally, they will simply prompt relocation, as the Commission themselves acknowledge, particularly in the case of derivatives. This will have a greater impact on countries with large financial centres.

It should be recalled that these were not problematic issues for Tobin's original proposal for a financial transaction tax. The cascade effect was not a flaw but, rather, a key feature of the tax – Tobin's motive was not to raise revenue but to close down forex speculation – he did not propose to apply the tax on other financial instruments. The relocation issue was not a concern because Tobin envisaged a tax that was global in scale.

We would therefore conclude that the FTT is an undesirable tax, and that this is due to the fundamental nature of financial transaction taxes and not specific to this particular implementation.

As a result of all the above, the impact of an FTT will fall mostly on users of financial markets including ordinary consumers. The transaction tax would be passed on to end-users: savers, investors and businesses as the EU pointed out within their own analysis.

The Commission’s proposal seeks to accommodate companies and consumers as if they could be sheltered from the direct effects of the tax - but this ignores the effects of tax incidence which the Commission has itself highlighted in the past. Pension funds across the

EU would pay the tax when they buy or sell investments or use derivatives to hedge against inflation, interest rate volatility or credit, commodity or foreign currency risks. As a result the FTT will reduce the value of pensions.

Borrowing costs will increase as the providers of credit to household and small and medium-sized businesses will have to pass on the tax to end-users when using the financial markets to secure funding.

The Commission estimates that in the long run (20 years time) the FTT would reduce Europe's total output by between 0.5 and 1.8 per cent therefore reducing the total EU employment by more than 0.2 per cent, or about half a million jobs, because of the loss of certain markets, such as derivatives, in Europe. We think that these estimates are rather optimistic since in the long run the loss of particular activities will increase the financial blow to European employment in most sectors including manufacturing (as can be proved by the exodus of the car manufacturing industry to Easter Europe and Asia where employment costs are smaller). The inability to secure funding and hedging at the right cost will not help the development of these industries and job creation in Europe but instead is likely to encourage such development elsewhere.

Moreover, the big gaps in the Commission's economic and financial modeling, which for example, does not take account of the financial services and the ancillary jobs that will leave Europe, suggest that these projections are likely to be significantly underestimated as was the case with the studies carried out before this tax was applied in Sweden.

Therefore, we believe, that the Commission's design is not the most desirable. The FTT would increase capital costs, reduce investment, reduce real wages and GDP. We know that anything that is elastic should be taxed at a zero rate. Financial transactions are the most elastic of all transactions. According to OECD text books, this is the most harmful tax that could be invented. There is a risk that the Commission has underestimated the impact on GDP and overestimated the revenues assumed from the FTT. We believe that this tax will impact the secondary market for government bonds. For some countries that will be an important development. Some observers have pointed out minimal changes in bond costs of 20 to 30 basis points can have significant effect. Even these changes, that we believe are grossly underestimated, will have a negative impact and will be borne by taxpayers.

Q 6. On which transactions should the FTT be levied? Is it appropriate for the FTT to be levied on shares, bonds, derivatives and structured financial products as suggested by the Commission? What should be the rate of the FTT?

As we have mentioned above, we would oppose the introduction of the FTT on any class of financial product. We would, however, note in relation to the rate that the headline rates (0.1% generally, and 0.01% for derivatives) are somewhat misleading viewed in isolation. The question is what the effective rate is, and cascade effects need to be taken into account.

Q 7. Is it appropriate for the FTT to be applied on the basis of the residence principle as proposed by the Commission? How likely is the residence principle to work in practice?

It is unusual, if not unprecedented, for a party to be deemed resident in a territory for a tax purpose solely as a result of transacting with someone in that territory. The EU's trading partners may not welcome this kind of extra-territoriality.

We would also observe that inefficiencies may result from the fact that multiple parties can become subject to the same tax on one transaction, but each in a different jurisdiction and potentially at a different rate and with different local anti-avoidance rules. The FTT is therefore likely to be a complex and expensive tax to administer.

These factors, combined with the joint and several liability, mean that a financial institution would need to monitor FTT implementation and practice across all the EU jurisdictions where its counterparties reside.

Q 8. How significant is the potential for the FTT to raise significant revenues? How reliable would it be as a revenue stream? Where would the true incidence of the FTT fall? Should the revenues arising from the FTT be used to finance the deficits of Member States?

We would make several points in this regard.

First, we would query the reliability of the revenue estimates in the impact assessment. The Commission's impact assessment estimates revenues of €25bn to €43bn (on the respective assumptions of a 90% or 70% reduction in derivatives). Other figures are discussed in the FTT documentation, but relate to implementations of the FTT that are not reflected in the final Directive (e.g. an FTT that covers spot forex trades). Therefore, these figures are highly speculative, based as they are on estimates of tax elasticities with very little precedent from real world taxes.

Moreover, for reasons that are not clear to us, the headline revenue estimates appear to have been calculated using a lower elasticity than recommended by the impact assessment (-1, opposed to -1.5 (see Vol. 12, p. 15 of the impact assessment)). Furthermore, revenues have been modeled by adopting the same elasticity for bonds as for equities, despite evidence (from Sweden's experience) that the actual elasticity of bonds may be an order of magnitude higher.

However, the most serious flaw in the Commission's impact assessment is that it assumes the effective rate of the FTT is 0.01% for derivatives and 0.1% for financial instruments. In even the simple case this is not correct - most derivative transactions and many financial instrument transactions are between two financial institution parties, and the effective rate will therefore usually be double the headline rate. Cascade effects (as described below) have the potential to multiply this considerably. If the elasticity is indeed greater than -1 then the higher effective rate will translate into lower revenues (i.e. as institutions and transactions decline and/or relocate).

Second, the revenue estimates need to be set against the fall in tax revenue that will result from the FTT. There are several reasons why such a fall would be expected:

(a) FTT will replace stamp duty on securities, and therefore £2-4bn of UK tax revenues will be lost.

(b) As a trading expense, the FTT would be tax deductible – accordingly there would be an immediate corporation tax loss of (broadly speaking) 26% of all the FTT paid by UK banks and non-UK banks with London branches. The very significant level of financial business carried on by London branches of EU banks makes this a particular issue for the UK - for example, a German bank's London branch entering into a derivative will pay FTT to Germany, but the 26% corporation tax deductibility of that FTT would be borne by the UK.

(c) As noted below, the GDP and employment effects of the FTT will cause reduction in general corporate and personal tax revenues.

The Commission's impact assessment does not set out to model these reductions in tax revenue. It therefore remains an open question whether the FTT will, overall, be fiscally revenue negative.

Third, as the Commission have themselves acknowledged (Staff Working Document SEC (2010)1166), there is a lack of data relating to tax incidence and financial transaction taxes. However, as that paper also implicitly acknowledges, most of the incidence is likely to fall on end-users of financial services, either directly (by companies seeking to hedge interest rate exposure) or indirectly (by individuals whose pension funds bear FTT costs on their investments).

Q 9. Would the Commission's proposal for an FTT be effective in addressing short term volatility and curbing harmful speculation? Would it reduce excessive risk taking?

Additional taxation on the financial sector is likely to decrease the banks' liquidity and their ability to build up capital reserves. The sudden reduction in number of financial transactions is likely to decrease liquidity and make the markets more volatile. In the context of derivatives the FTT proposal makes no differentiation between speculative and hedging transactions. The cascade effect of the taxation favours OTC over exchange traded derivatives and runs directly contrary to the regulatory push towards central counterparty clearers to provide collateral and netting for a majority of standardized derivatives

The European Commission's assessment itself affirms that an FTT will inevitably aggravate volatility and reduce liquidity. There are multiple places in the Commission's impact assessment describing this important point. All three Central banks that responded to the public consultation are clearly against an FTT and also voiced concerns against any tax that would reduce market liquidity (SEC -2011- 1102 Volume 2 page 9). Prof. Seán Yoder (University of Maine) is quoted in the Commission's impact assessment with reference to liquidly too. He said that FTTs are seen as a way of taxation of an activity (and not of income or expenditure) and to correct negative externalities. He criticised the cascading effect of those taxes and their negative effect on liquidity (whose effects would be felt far beyond the financial sector) and also hinted towards the possibilities of circumvention by way of netting settlement agreements (SEC -2011- 1102 Volume 2 page 19).

Reducing liquidity is a way of creating room for speculation. This will affect the economic stability of European countries. Liquidity is a determinant of market quality and thin liquidity is conductive to high volatility as the recent financial crisis has shown. For example, the FTT will reduce arbitrage opportunities considerably, reducing the number of financial transactions and creating more opportunities for speculators rather than fewer opportunities.

Furthermore, the increased cost to business of hedging risks (interest rate, currency and credit risks in particular) will itself exacerbate volatility across the economy. For example, the capacity of end-users being able to fix low prices for their demand of basic commodities (i.e. electricity, fuel, basic materials) will be impaired as a result of the FTT, as it may make much hedging uneconomic in Europe.

We would also note that many of the funds and other entities who the Commission views as engaging in harmful speculation are also based outside the EU. These entities currently trade through exchanges in the EU (predominantly in London) because that is where the liquidity is. If the FTT were introduced, we would expect pools of liquidity to rapidly move outside the EU; at which point these same entities would be able to continue their trading/speculation outside the ambit of the FTT. It is, ironically, precisely those whom the Commission wishes to target who will escape the effects of the FTT, whilst the so called "real economy" and consumers will have no such option. In our view, this result is not peculiar to the Commission's implementation of the FTT, but inevitably follows from any FTT that is not introduced globally.

Q 10. What would be the impact of the FTT on market liquidity? What effect would the FTT have on speculation in sovereign debt markets?

As noted above, we would expect arbitrators/speculators to continue to operate, but to do so outside the EU and therefore outside the scope of the FTT. Liquidity for EU market participants would likely decrease; liquidity for non-EU participants trading EU securities may not (for the reasons noted above).

Q 11. How easily could the FTT tax be circumvented by market operators?

There may be some shift to economically equivalent products, i.e. instead of (as is typical in the UK market) a lender advancing a floating rate loan to a borrower and the borrower then hedging its interest rate exposure, the lender could advance a fixed rate loan. The hedge would be within the FTT; the fixed rate loan would not. This would, however, be an inefficient result, reducing choice for borrowers.

The FTT proposal would also seem to favour indirect investment (e.g. via structured notes) rather than direct investments in funds. Therefore the trend would be towards products which may be less well regulated or carry more issuer credit risk.

However we would view the most significant change to be one prompted by simple price competition rather than circumvention, as non-EU financial institutions out-compete EU financial institutions which are subject to the FTT.

Q 12. What impact would the FTT have on the UK's financial services sector and the City of London, as well as the UK economy more broadly? If a significant proportion of any transaction tax accrued in London, would the burden necessarily fall on British citizens?

Considerable attention has been paid to the estimate in the Commission's impact assessment that the FTT will have a long term cost of 0.53% to 1.76% of EU GDP. It is, however, important to note that these figures only reflect the increased cost of capital for corporate. Due to limitations of the Commission's model, the figures do not reflect the increased cost of hedging for corporates. Even ignoring this limitation, the figures fail (for the reasons noted above) to reflect the multiple and cascading charges of the FTT, and are therefore out by (it is reasonable to assume) at least a factor of two, and probably more. More significantly still, the figures do not reflect any decline in the financial sector, even though this decline is anticipated elsewhere in the Commission's documentation to amount to 70-90% of the derivatives market alone. We therefore believe the GDP effect of the FTT will be considerably more pronounced than the Commission's headline estimates suggest; and it is to be expected that this cost will be disproportionately carried by the UK.

It is, therefore, not the level of taxation paid but the relocation of business outside the EU which is going to have the greatest impact on the economy. It will not just be the trading and settlement activities of the investment banks which will be affected but also the fund management industry, the clearing houses and exchanges and associated IT and advisory professionals who support EU based markets and products.

The FTT will impact the broader UK economy as most banking products (including loans which are not subject to FTT) depend on derivatives for pricing and hedging.

Bank lending is likely to be curtailed or to become more expensive. Many banks have credit risk policies or capital constraints which require the credit risk on their loan book to be fully or largely hedged. The availability and cost of credit default swaps is critical to banks' ability to lend.

Corporate borrowers' ability to raise money on capital markets will be constrained if they are unable to swap the cash flows which are attractive to investors for ones which meet their funding needs. Therefore the FTT will increase the cost of borrowing.

Q 13. How would you assess the likelihood that the FTT would cause financial services to relocate outside the EU, or contribute to a migration of financial transactions towards less regulated parts of the financial sector? Does the UK experience with the stamp duty demonstrate that a modest FTT is not inconsistent with maintaining a successful stock exchange?

We can make the obvious point that derivatives can be transacted anywhere in the world, and that the cascading cost of the FTT will clearly place EU institutions at a competitive disadvantage when transacting, compared with non-EU institutions. The obvious outcome is for EU institutions to close their derivatives desks or move them outside the EU – not circumvention, but a natural consequence of the tax. To fail to do so would result in the business being lost to competitors based outside the EU for the reasons outlined above.

UK stamp duty, for example, is noted by a number of the FTT's proponents as evidence that the FTT is viable. But, crucially, stamp duty does not share the two flaws mentioned above – it does not cascade (because intermediaries are generally exempt) and it does not prompt relocation (because it generally applies on the basis of the jurisdiction of the issuer of the securities in question, not the residence of the buyer/seller).

Q 14. Will the FTT duplicate existing taxes in countries which have already implemented a bank levy, such as the UK?

The purpose is duplicative, i.e. to recompense the Treasury for the cost of bank bail-outs, but of course the nature of the tax is quite different.

Q 15. Could such an FTT be plausibly introduced at an EU level, or would an FTT only be effective if introduced globally? Should an FTT be introduced at EU level regardless of whether it is introduced at a global level? In the event that an FTT is not introduced at EU level, would there be a case for its implementation by euro area countries alone?

Relocation difficulties would of course be eliminated if the FTT were adopted worldwide. However, as the Chancellor of the Exchequer stated on 9 November, it seems clear from the published views of the US, Canada, Australia, China, Singapore and others that this is not going to happen.

We would, however, differ from the Chancellor in that we see financial transaction taxes as fundamentally flawed even if they were adopted at a global level. Cascading charges are the inevitable result of seeking to apply taxes to transactions between financial intermediaries and are therefore inherent to both this and other FTT proposals. A global FTT will also adversely impact on pensions, in the same way that the EU FTT would. These effects plus the tax incidence issues discussed above mean that the FTT is simply a bad tax – inefficient in operation, opaque in who bears the cost and economically distortive and expensive.