

Financial Transaction Tax

ISEEE Fall Conference
Luxembourg

14-17 September 2014

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- May 5 2014 commitment to introduce a limited FTT signed by 10 countries (FTT Block)
- France, Germany, Italy, Spain, Portugal; Belgium, Estonia, Austria, Slovakia, Greece, (Last minute Slovenia did not sign)

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- FTT Focused
 - On shares
 - Some derivatives (but yet no agreement)

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Scope: two main principles:

- “**Residence principle**”, which catches financial transactions where
 - one party is established in a participating Member State;
 - financial institution established in a participating Member State, is involved in the transaction.
- “**Issuance principle**”, which deems persons who deal in financial instruments as established in the country of issue, where that country is a participating Member State.

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Exemptions

- However, CCPs, CSDs and Member States' own entities managing public debt are exempted (although their counterparties may not be).

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- Paris July 9, 2014 Paris Europlace
 - Michel Sapin French Finance Minister: “I shall never accept a FTT which will jeopardize the Financial Place of Paris”

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- Agreement to apply the FTT to trading in shares (similar system to the UK “stamp duty”)
- France already applies a FTT (0,2%) on listed companies (market cap > € 1B) since August 1 2012
- Hungary applies FTT since January 1 2013 (but is not member of the FTT Block)
- Italy applies FTT since March 1 2013

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FTT should be extended to derivatives but:

- Italy asks extension to derivatives on shares
- Germany supports this proposal as it would not hurt the Eurex market (leader in derivatives on interests)
- France objects as BNP Paribas and Société Générale are European leaders in derivatives on shares

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Some preliminary conclusions

- High Frequency Trading and algorithmic trading harder hit than long-term holders.
- May lead to a total review of how and where such HFT activities operate
- No European Unity
- Detrimental to cross border trading
- Surprisingly UCITS and Pension Funds not exempted

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- EU Finance Minister meeting September 12, 2014
 - “I won’t be part of a fig-leaf tax announced for political reasons to counter evil speculators. If the overhead for intermediaries is bigger than the outcome, the tax doesn’t make sense,”
 - “Some countries are pushing to exclude instruments used purely as a hedge as these aren’t speculative, but how to differentiate between speculative and non-speculative derivatives?”.

Hans Jörg Schilling, Austrian Finance Minister

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- What next?
 - A working group will look at the technical issues by the next meeting of EU Finance Ministers in mid-October.
- “If we don’t have a solution by the end of the year, we won’t be able to implement this in time. It’s pure speculation whether we’ll succeed.”

Hans Jörg Schilling, Austrian Finance Minister

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For further information please contact

Michel Maquil
mmaquil (at) pt.lu