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Giannis Stournaras
President of Economic and
Financial Affairs Council
Rue de la Loi 175
B-1048 Bruxelles

23 January 2013

RE: Financial Transaction Tax

Dear Mr Stournaras,

European quoted companies would like to express deep concerns over the proposal for a Council Directive introducing Financial Transaction Tax.

We firmly believe that the intention behind the initiative, *i.e.* to ensure that the financial sector makes a fair contribution to covering the costs of the financial crisis, to discourage certain financial activities that do not bring value to the overall economy, to raise revenues in the long-term and to make markets safer, would not be achieved with the adoption of the current proposal.

On the contrary, the introduction of a Financial Transaction Tax in some European Union Member States would put them at a competitive disadvantage, impact financial transactions with a genuine economic substance that did not cause the financial crisis, thus, imposing considerable costs on non-financial companies and ultimately leading to a substantial drop in economic growth.

As it is a priority set in the Europe 2020 growth strategy "to move decisively beyond the crisis and create the conditions for a more competitive economy with higher employment", we urge the Council to refrain from harming the real economy and to abandon the idea of impairing the already faltering European economy with the introduction of a Financial Transaction Tax.

There are numerous reasons why the current proposal would be very harmful to the real economy and to the end users of financial instruments (*e.g.*, non-financial companies responsible for the economic growth, investors and savers). We underline a few of them:

- End users (non-financial companies responsible for the economic growth, investors and savers) would suffer from the costs that the financial sector would pass on to them; this effect would be aggravated as the tax would normally be due several times in a financial transaction (cascade effect); as a result, legislators would penalise the end users (including average citizens who save money for the future of their children or retirement) who already suffered the most during the crisis;
- An increase in the cost of finance, as investors will be confronted with higher transaction costs and liquidity decreases as result of the hampering of a variety of instruments used by the real economy;
- A negative impact on corporate pension schemes, because the performance of assets will be decreased by the impact of FTT and the risk management will made more costly;

- An increase in the cost of hedging, which is an indispensable tool for non-financial companies to offset various risks of their commercial and treasury activities (foreign exchange and interest rate derivatives, derivatives on commodities, energy, CO2, etc.); this would as a consequence disadvantage non-financial companies in participating countries vis-à-vis competitors from other countries, would counter the advantages of an integrated and centralised risk management and may force non-financial companies to take financial risks on their own books that should better be hedged;
- Direct tax liability for non-financial companies: in non-financial groups, it is common practice to centralise the management of treasury and/or hedging transactions that are performed by a dedicated company which interacts with all industrial and commercial companies within the group. According to the proposal, this sort of undertaking would generally be regarded as a financial institution and therefore the FTT would be imposed on external financial transactions and on internal financial transactions within the group. The additional tax burden would be tremendous, although the focus of the group remains on the operative, non-financial business.

In addition, companies express their strong concern about the European Parliament's proposal to tax currency spots on the foreign exchange markets. Taxing the transactions made by industrial and commercial companies would constitute an obstacle to the free movement of goods and the free supply of services and penalize European exports.

Our concerns have been evidenced, more recently, in a public report by Oliver Wyman, which analyses the impact of the proposed FTT on end-users: 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 report provides both quantitative and qualitative evidence for this; namely, non-financial companies would face annual costs of €8–10 billion, equivalent to 4–5% of post-tax profits in the impacted economies.

Based on other estimates made in various participating Member States, it is most probable that the costs passed on to non-financial companies and the direct costs incurred would be far greater than this estimate.

We invite you to see our previous position paper for more information, as well as to contact us in case of any questions.

Yours sincerely,

Susannah Haan

Susannah Haan
Secretary General

EuropeanIssuers represents the interests of quoted companies across Europe.

We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer-term. We seek capital markets that serve the interests of their end users, including issuers.

More information can be found at www.europeanissuers.eu.