efama

European Fund and Asset Management Association

TO: ALL INTERESTED PARTIES

Ref. 12-1156

December 12, 2012

Dear Sirs,

Enhanced Cooperation on Financial Transaction Tax (FTT) – The European investment fund industry encourages the European Commission as well as the European Governments to carefully consider all the downsides deriving from the introduction of an FTT under the enhanced cooperation procedure

The European Fund and Asset Management Association ("EFAMA")[1], representing the European investment fund industry, is highly concerned in relation to the creation of a financial transaction tax ("FTT") under the enhanced cooperation procedure. In particular, EFAMA's key concerns are as follows:

- **Jeopardising long term savings.** A broad, residence-based FTT represents a significant risk to savings and pensions of EU citizens and will limit the availability of savings products in the EU. The long-term outlook for a culture of saving for retirement in the Member States that adopt an FTT will be permanently damaged. An FFT would erode six out of 30 years' worth of contributions in an actively managed retirement savings plan.

- **Endangering the Single Market.** EFAMA is concerned about the compatibility of a broad, residence-based FTT with the legal framework of the EU. A wide-based FTT in a few of the EU Member States will cause distortions, and inevitably provoke a cycle of protective reactions that could destroy the Single Market and undermine the safeguards provided by EU regulation of financial markets. There is a risk of permanently damage the EU's financial sector and a threat to the EU's financial independence.

- **Incidence of the tax: the "cascading effect".** The impact on savers would be exacerbated because, as drafted, the FTT would apply multiple times to every transaction along the investment chain. Under the original proposals it was estimated that the tax would apply at least four or five times, if not more, for each transaction. So far, there have been no safeguards against this 'cascading effect'.

[1] EFAMA is the representative association for the European investment management industry. EFAMA represents through its 26 member associations and 59 corporate members approximately EUR 13 trillion in assets under management of which EUR 7.9 trillion was managed by approximately 54,000 funds at end 2011. For more information about EFAMA, please visit www.efama.org.

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- **Availability of savings products to EU citizens.** An FTT will cause investors to switch their savings away from UCITS and towards savings deposits and life insurance products that are not covered by the FTT. As a consequence, an FTT will create an undesirable (and unacceptable) distortion between providers of long-term savings products, endangering the future of UCITS and ultimately reducing the choices available to EU citizens for saving for their future.

- **Impact on growth and investment.** An FTT would reduce an important source of long-term financing for the businesses of the Member States that implement it. Businesses will face a higher cost of capital and investors will be incentivised to move towards savings deposits. Small and medium enterprises that are already struggling to raise finance will find it even more difficult and this will have a detrimental impact of economic growth.

- **A threat to the operation of capital markets.** A broad, residence-based FTT represents a significant risk to the operation of financial markets of those Member States. As a result of the increased cost and lower volumes of transactions there will be a reduction in liquidity in securities within those Member States. The knock-on effect of this will be to increase price volatility – hurting the security in savings and pensions of citizens in those Member States.

- **A tax on EU citizens.** An FTT will not meet the EU Commission's stated aim of ensuring that financial institutions make a fair contribution to covering the costs of the recent crisis. Any tax that meets this objective would need to be targeted at the financial institutions that contributed to the crisis. Instead the FTT is an indiscriminate tax on savings, investment and pensions.

Moreover any estimate of the tax-take is likely to underestimate the effect of relocation. Evidence from other FTTs (including the one recently implemented in France) is that FTTs raise only a fraction of what governments have expected in revenue, are costly and difficult to implement and enforce.

In fact the main effect of an FTT applied on a residence basis and with a broad scope will be to drive savings and investments into external and possibly unregulated markets impede liquidity in financial markets, and provide a disincentive to EU citizens to save for their future.

We are grateful in advance for your attention to this open letter and we welcome the opportunity to discuss it with you. In case there is any additional information that we can provide, please contact EFAMA at info@efama.org or on +32 (0) 2513 3969.

Yours sincerely,

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