



gfma

afme/

asifma

sifma

---

## Press Release

17/01/2012

### EU's Financial Transaction Tax could increase FX costs by 9 to 18 times for Europe's businesses and pension funds

---

A Financial Transaction Tax (FTT) levied across the European Union would seriously impact the foreign exchange market, increasing transaction costs by up to 18 times, according to Oliver Wyman research commissioned by GFMA's<sup>1</sup> Global FX Division<sup>2</sup>.

The report findings suggest that, given the tight margins that exist in foreign exchange markets, this increase would, in turn, hit the real economy as these costs would largely be passed onto all end-users, such as Europe's financial institutions, (pension funds, asset managers, insurers) and corporates.

The global foreign exchange market is the most liquid in the world, with an average daily turnover of \$4 trillion, according to the Bank for International Settlements, and is used extensively by corporates, as well as investors. The majority of FX trading volume (45%) takes place in the FX swaps market.

The report, *'Proposed EU Commission Financial Transaction Tax; Impact Analysis of Foreign Exchange Markets'*, evaluates the impact of the European Union's proposed FTT on European FX markets, estimating its impact on FX cash and derivatives users. The report not only recognises a **primary** impact of the tax – an increase in transaction costs, relocation of trading and reduction in notional turnover – but also a **secondary** impact, namely, a potential reduction in liquidity leading to a widening of bid/ask spreads. The research suggests that a proposed FTT would:

- Directly increase transaction costs for all transactions by three to seven times and by up to 18 times for the most traded part of the market;
- Potentially relocate 70-75% of tax eligible transactions outside of the EU tax jurisdiction; combined with reduced transaction volumes (of approx 5%), this could reduce market liquidity and increase indirect transaction costs by up to a further 110%;
- Predominantly hit the real economy (pension funds, asset managers, insurers and corporates) as both direct and indirect costs are largely passed onto end-users, who will be least able to move transactions to jurisdictions not subject to the tax;
- Have a limited impact on speculative trading as this activity will most likely relocate outside the EU tax jurisdiction;
- Inefficiently tax the economy as raising €1 of tax would likely cost the economy more than €1, due to the indirect costs associated with reduced and more fragmented liquidity.

To reach this increase of 18 times, the report used the example of the most liquid swap product – the EUR/USD 1 week swap with a notional value of €25,000,000, as transacted between a bank and a financial institution (e.g. pension fund). The current cost to transact for the end-user is €279. The additional taxation of this transaction at 0.01% is €2,500 to the dealer and an additional €2,500 to the financial institution, resulting in a total cost of €5,279 or an 18-fold increase, assuming all costs are passed onto users. (FX swaps with maturity of less than one week account for over 50% of the tax eligible FX cash and derivatives market).

James Kemp, managing director of GFMA's Global FX Division commented:

“It is essential to fully understand the impact of the proposed financial transaction tax and the Oliver Wyman study is an important contribution to the debate.

“The foreign exchange industry is an essential part of a stable and sustainable economy, underpinning international trade and investing. This study shows that the proposed tax would in effect penalise Europe's businesses for sensible risk management – by using FX products to manage currency fluctuations – and also threaten to impose further costs on the investment returns of pension funds and asset managers.

“In addition, the combination of direct costs and indirect costs, arising from reduced market liquidity and wider bid/ask spreads, means that raising €1 in tax is likely to cost users more than the amount of the tax itself.”

For the full report, [click here](#)

-ENDS-

## Contact

James White +44 (0)20 7743 9367

Andrew DeSouza +1 (202) 962-7390

## Notes:

1. The Global Financial Markets Association (GFMA) joins together some of the world's largest financial trade associations to develop strategies for global policy issues in the financial markets, and promote coordinated advocacy efforts. The member trade associations count the world's largest financial markets participants as their members. GFMA currently has three members: the Association for Financial Markets in Europe (AFME), the Asia Securities Industry & Financial Markets Association (ASIFMA), and, in North America, the Securities Industry and Financial Markets Association (SIFMA). For more information, visit <http://www.gfma.org>.
2. The Global Foreign Exchange (FX) Division of the GFMA, was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 22 global FX market participants, collectively representing more than 90% of the FX market.
3. Oliver Wyman research commissioned by GFMA's Global FX Division - *'Proposed EU Commission Financial Transaction Tax; Impact Analysis of Foreign Exchange Markets'* - examines the effect of the European Union's proposed financial transaction tax (FTT), under which securities transactions would be charged a minimum rate of 0.1% on purchase price and derivatives transactions would be charged a minimum rate of 0.01% of the notional value. FX products eligible for taxation would include OTC FX cash products (forwards and swaps), OTC FX derivatives (options) and listed FX futures and options. This report was commissioned by GFMA alongside a separate Oxera study which examined more generally the impact of an EU transaction tax – see link: <http://www.oxera.com/main.aspx?id=10180>