IRSG | INTERNATIONAL REGULATORY STRATEGY GROUP

Financial Transaction Taxes

High Level Summary of Tax Options

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Introduction

At present, there appears to be insufficient support among EU member states for the introduction of a pan-European Financial Transaction Tax (FTT) of the sort proposed by the European Commission in September 2011. Given the strong support for some form of financial sector tax among certain member states, some form of limited tax introduced using the Enhanced Cooperation Procedure (ECP) or national taxes (as already introduced in France) appear to be the next likely step. By submitting this paper comments, the IRSG does not endorse in any way the proposal currently under consideration to introduce such a tax. Indeed, the IRSG has strong reservations about the imposition of such a tax and concerns about its potential impact.

There has been much comment on the now-defunct Swedish FTT and the UK's Stamp tax on shares[1], particularly on what features of the respective regimes caused one to fail and the other to operate relatively successfully. These two examples serve to highlight the importance of design (for instance regarding collection, scope, etc.) in making such taxes operable. The aim of this paper is to compare these and other European taxes (French FTT, Swiss Stamp Duty and the proposed EU FTT) and consider the implications of the different options in each case. The paper also sets out some key issues to consider when deciding whether taxation should be based on residency or issuance.

It is important to note that in all cases, these taxes will have an impact on economic growth (to varying degrees- see Table 2). Moreover the burden of these taxes will largely fall on users of financial services, whether it is corporates affected by the increased cost of capital or pensioners receiving lower returns. For this reason, the IRSG does not support the introduction of such taxes. However, we understand the political and fiscal imperatives for some countries to introduce such taxes.

Some key conclusions that we draw from the comparisons below:

- The availability of substitutes and the ability to migrate activity offshore will have a large impact on the success of the tax, both in terms of revenue-raising and impact on the market.
- None of the taxes raise significant sums of revenue, even in the UK and Switzerland with their large concentration of financial services.
- Broad exemptions for intermediaries are a key feature of the UK and Swiss models, assisting market efficiency and avoiding cascading effects.
- The FTT would reduce market liquidity in all securities markets[2]. Medium size countries such as Spain are expecting their securities markets volumes to shrink up to 85% in a similar fashion to the Swedish experience[3].

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[1] Transactions in UK shares are subject to stamp duty and stamp duty reserve tax (SDRT): which is levied depends on whether the transactions is off or on-exchange. The information contained in this paper relates primarily to stamp duty reserve tax.

[2] Adams Smith Institute, Briefing Paper, 'Hanging London out to dry The impact of an EU Financial Transaction Tax', By Adam Baldwin & Sam Bowman (The paper states that 40% of the London Stock

- In particular, significant decrease in turnover of fixed income and derivatives were experienced even with very low tax rates. Progressive tax rates depending on maturity in fixed income could alleviate this to some extent.
- An automated collection system, as in the UK, reduces administrative burdens on both the revenue authorities and the industry. It also makes the tax harder to avoid.
- Difficulty enforcing the tax overseas is key issue with all of these taxes given the global nature of financial markets.

Exchange's volume would be wiped out by the FTT, making markets far more illiquid and that the markets' ability to incorporate new information into asset prices would be undermined.

[3] CECA (Spanish Savings Banks Association), see link:
http://www.elconfidencial.com/archivos/ec/2012100323pag1_merged.pdf

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Table 1: Scope

UK STAMP DUTY	A tax of 0.5% if levied on the transfer of ownership of shares of UK-listed companies. It applies to collective investment schemes in a modified form. It applies to both on- and off-market transfers and is payable by the buyer. It applies to both primary and secondary market transactions. [4] There are exemptions for trades carried out by recognised intermediaries and for repurchase agreements and securities lending. There is a 1.5% exit fee for shares transferred to a CSD or ADR outside the EU. There are also exemptions for reconstructions and mergers and certain transfers by pension funds, charities and life assurance companies.
FRENCH FTT	Tax of 0.2% applies to the acquisition of shares in companies headquartered in France with a market capitalisation above €1bn[5]. Intermediary exemption is available for defined market-making activities. The tax only applies upon transfers of beneficial ownership and to net purchases upon settlement.[6] The tax will apply to trading of American Depositary Receipts (ADR) from 1 December 2012. When justifying the scope of the tax, the French government said that taxing bonds (both government and corporate) would disadvantage the long-term financing of growth in France compared with other countries. It was impossible to tax derivatives on a national level due to the lack of available information on OTC derivatives and the market was very competitive, therefore taxing these instruments would cause massive relocation of listed derivatives to move from Paris to other financial centres. Taxing on-exchange derivatives, in particular equity derivatives, was redundant as the ensuing transfer of shares would be taxed anyway.[7]
ITALIAN FTT	The tax will apply to : - The transfer of shares and participating financial instruments issued by Italian resident companies. This includes ADRs. - Equity derivative transactions, whether cash- or physically settled, whose underlying is shares or value of Italian shares, including options, warrants, covered warrants and certificates. Physical transfer of the underlying is taxed separately. The tax rate for shares is 0.2%. This is reduced to 0.1% where shares are traded on a regulated market. There is also a 0.002% tax on High Frequency Trading. The tax applies to the net daily balance and is borne by the purchaser. For equity derivatives, the tax applied is a fixed amount which varies depending on the type and value of the contract (from €.01875 to €200). The amount is reduced by 20% if the transaction takes place on a regulated market or multilateral trading facility and it borne by both parties to the transaction.

[4] Finance Act 1986, s87 and Finance Act 1999 Schedule 13.

[5] There are also separate taxes on High Frequency Trading and CDS which are not analysed as part of this paper.

[6] Credit Suisse [2012], *Europe's Dalliance with FTTs*, 17 April 2012

[7] Projet de loi de finance rectificative pour 2012 n.4332

SWEDISH FTT	Initially introduced in 1984 with a tax of 0.5% on purchases and sales of domestic equities (1% for a round-trip transaction) and 1% for stock options (2% for roundtrip) using local brokerage services. Exercise of an option was treated as a transaction in the underlying stock and was thus subject to an additional 1% tax for a roundtrip. Interdealer trades were initially exempted by later added in 1987 at 0.5%. The rates were doubled in 1986 and the tax was later extended to fixed-income securities in 1989. The maximum rate for fixed-income instruments was set at a maximum rate of 0.15% of the underlying notional or cash amount (longer maturities were taxed at progressively higher rates.) The tax was abolished by 1991.[8]
SWISS STAMP DUTY	Swiss securities transfer duty (often called 'securities turnover tax' or 'transfer stamp tax') is levied on the transfer of ownership on Swiss or foreign securities against remuneration in which Swiss security dealers participate as contracting parties or as intermediaries[9]. The ordinary tax rate of Swiss securities transfer duty is 0.15% for securities issued by a tax resident of Switzerland and 0.3% for securities issued by a tax resident of a foreign country. The tax is split evenly between the buyer and the seller. Swiss security dealers are defined as any person professionally engaged in the buying or selling of securities for one's own account or for another person, including Swiss banks and other Swiss bank-like institutions. The definition also includes companies holding taxable securities whose book value exceeds CHF 10 million. Taxable securities include, but are not limited to, shares, bonds and fund units. Options and many other derivative instruments are not subject to Swiss securities transfer tax. However, the exercise of such financial instruments or derivatives may result in a taxable transfer of a security. The tax is evenly split between the buyer and the seller unless an exemption from Swiss securities transfer stamp tax.
EU FTT	The EU FTT would apply to transactions in shares, bonds and derivatives carried out by financial institutions where at least one of the parties to the transaction is resident in the FTT-zone and also where such instruments were issues in a participating member state. Transactions in shares and bonds would be taxed at 0.1% and transactions in derivatives would be taxed at 0.01% (based on the notional value of the contract). Counterparties resident outside the FTT-zone would be deemed resident in the FTT-zone if they conducted a transaction with a resident counterparty.

[8] Habermeier, Karl and Andrei Kirilenko [2001], *Securities Transaction Taxes and Financial Markets*, IMF Working Paper, May 2001

[9] There are three types of transactional duties in operation in Switzerland: issuance stamp duty on the issuance of Swiss shares and on comparable capital contribution transactions; securities transfer stamp duty on the transfer of ownership on taxable securities; and insurance premiums stamp duty. This paper only looks at the securities transfer stamp duty on the transfer of ownership on taxable securities.

Table 2: Economic Impact

UK STAMP DUTY	Stamp Duty reduces UK GDP by between 0.24% and 0.78%.[10]
FRENCH FTT	Data not available
ITALIAN FTT	Data not available
SWEDISH FTT	Data not available
SWISS STAMP DUTY	BAKBASEL estimates that eliminating all three types of stamp duty in existence in Switzerland would increase GDP by 1.2% and increase employment by 0.5%.[11]
EU FTT	The European Commission estimated that the EU27 FTT would reduce European GDP by between 0.53% and 1.76%.[12] However, these figures assume that only one leg of the transaction is taxed, while the design of the tax and the revenue calculations assume that both legs of a given transaction are subject to tax, resulting in a GDP impact of between 1.06% and 3.43%.[13] The impact assessment GDP figures assume no capital flight. Oxera note that the Commission raise that the negative impact on GDP may be almost triple the stated figure when capital flight is taken into consideration.[14] Research by Griffith-Jones and Persaud downplay the likely GDP impact, arguing that the GDP would be negligible when taking into account the financial stability benefits of reduced high frequency trading[15]. However, the academic literature does not support a link between high frequency trading and financial instability.

[10] Oxera [2007], *Stamp Duty: its impact and the benefits of its abolition*, May 2007
[11] BAKBASEL [2009], *Volkswirtschaftliche Auswirkungen einer Abschaffung der Atempelabgaben: Eine makroökonomische Simulationsanalyse*, September 2009.
[12] European Commission [2011], *FTT Impact Assessment*, September 2011
[13] Oxera [2011], *What would be the economic impact of the proposed financial transaction tax on the EU?: Review of the European Commission's economic impact assessment*, December 2011.
[14] Idem.
[15] Griffith-Jones, Stephany and Avinash Persaud [2012], *Financial Transaction Taxes*, February 2012

Table 3: Revenue potential

UK STAMP DUTY	UK Stamp Duty raises approximately £2.5-3bn per year (0.2% of GDP for 2007).[16]
FRENCH FTT	The French tax is expected to raise €1.6bn per year. When originally introduced, the tax was expected to bring in €1.1bn at a rate of 0.1%. The rate was then doubled but the new revenue expectations were only €1.6bn. Therefore a 100% increase in the rate is only expected to increase revenues by 45%.[17]
ITALIAN FTT	The Italian Government has estimated the tax will raise around €1bn.
SWEDISH FTT	In 1984, the tax raised SEK 820 million, 1.17 billion in 1985 and 2.63 billion in 1986 (0.37%, 0.45% and 0.96% of total government revenues respectively). After doubling the rate, the revenue collected amounted to 3.74 billion in 1987 and 4.01 billion in 1998 (1.17% and 1.21% of total revenues respectively). Thus a 100% increase in the rate resulted in only a 22% increase in revenue.[18] As trading volumes fell, so did revenues from capital gains taxes, almost entirely offsetting revenues from the equity transactions tax. Another reason for the reduction in capital gains taxes was the decline in share prices (estimated at around 5.3% in the 30 days prior to the introduction of the tax).[19] The taxing of government bonds increased the cost of government borrowing and undermined the Bank of Sweden's ability to conduct monetary policy.[20]
SWISS STAMP DUTY	Swiss Stamp Duty raises around €1.2bn (1.5bn Swiss francs, of which 200m on foreign shares)[21]
EU FTT	Anticipated revenue for the FTT is €31bn for the 11 participating Member States[22]. However, Ernst and Young have estimated that the fall in GDP would lead to decreases in revenues from other taxes (income tax, corporation tax, etc.) that would all but wipe out any revenue gains from an FTT.[23]

[16] HMRC- see link: http://www.hmrc.gov.uk/stats/tax_receipts/tax-receipts-and-taxpayers.pdf
[17] Projet de loi de finance rectificative pour 2012 n.4332; projet de loi de finance rectificative pour 2012 n.71 du 4 juillet 2012.
[18] Campbell, John Y, and Kennet A. Froot [1993], *International Experience with Securities Transaction Taxes*, National Bureau of Economic Research, December 1993.
[19] Wrobel, Marion G [1996], *Financial Transaction Taxes: the International Experience and the Lessons for Canada*, June 1996
[20] Campbell, John Y, and Kenneth A. Froot [1993], *International Experience with Securities Transaction Taxes*, National Bureau of Economic Research, December 1993.
[21] Cousin, Jean-Yves and Pierre-Alain Muet [2012], *Rapport d'information déposé par la Commission des Affaires Européennes sur la taxe sur les transactions financières*, Assemblée Nationale, 1 February 2012
[22] European Commission [2013], *Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax*, 14 February 2013

Table 4: Collection mechanism

UK STAMP DUTY	Automated collection via CREST- i.e. utilises existing IT infrastructure. Collection costs are estimated at 2bps per pound, compared with an average of 111bps per pound for other taxes.[24] While the automated collection of UK Stamp Duty reduces collection costs within the UK, it produces complications for collection when trading takes place overseas.[25]
FRENCH FTT	Collection system is not automated, but declarations are submitted individually by firms to Euroclear. The collection costs is estimated at 9bps but this is based on the current estimated for collecting UK Stamp Duty which as noted above is far more automated than the French tax and therefore expect costs to be higher than UK Stamp Duty owing to the need to check and police submissions[26]. The collection method used is theoretically equally applicable for overseas transactions as it is in France, although practical issues may arise over enforcement. For example, the US Price Bill which was proposed in December 2012 would prevent the enforcement of another country's FTT in the US.
ITALIAN FTT	The financial intermediary intervening in the taxable transaction is liable to pay the tax to the authorities. Where there are more than 1 intermediaries involved in a transaction, it is the intermediary closest to the end of the transaction that is liable. Where there is a foreign intermediary involved, an Italian representative must be appointed to comply with the tax.
SWEDISH FTT	There was no automated collection mechanism. Securities institutions such as brokers were responsible for reporting and paying the tax. If no securities institution was involved, the obligation fell to Swedish residents, provided they had, over a 6 month period, traded in securities with a value of at least SEK 500,000. Such a person would have to be registered with the Swedish authorities before they could trade in securities.
SWISS STAMP DUTY	Swiss securities transfer duty is collected and paid to the Federal Tax Authority by the Swiss securities dealer involved in a taxable transaction. The basis for the declaration is the transactions registered in the turnover register run by the Swiss securities dealer. The due transfer stamp tax collected has to be declared and paid on a quarterly basis to the Federal Tax Authority by the Swiss securities dealer (a yearly declaration is possible if the yearly due duty is of less than CHF 5'000).

[23] http://www.ey.com/Publication/vwLUAssets/ITEM_Club_Financial_Services_Winter_2011-12/$FILE/EY_ITEM_Financial_Services_Winter_2011-12.pdf
[24] Hawkins, Mike and McCrae, Julian [2002], *Stamp Duty on share transactions: is there is there a case for change?*, Institute for Fiscal Studies, 2002
[25] Idem.
[26] Projet de loi de finance rectificative pour 2012 n. 4332.

EU FTT	While the proposal does not set out in detail how this tax would be collected, the Commission noted practical concerns arising from the EU27 proposal to require intermediaries to collect the tax[27]: - Intermediaries may have limited information on the residence of their client for tax purposes and of related tax arrangements. - For some derivatives contracts, there will be no consideration at the time of the transaction, leaving intermediaries unable to withhold or collect the tax. Given the broad range of instruments in scope, there will not be one single body which will hold all the required information needed to collect the tax. Many intermediaries operate outside the proposed tax zone and the reach of the EU for direct enforceability of the tax. The US has proposed a draft bill which would prevent the enforcement of an EU FTT in the US. The administrative cost of collection could be disproportionate for intermediaries to bear and for authorities to monitor on a global basis.

[27] European Commission [2011], *FTT Impact Assessment*, September 2011

Table 5: Financial market exemptions

UK STAMP DUTY	UK Stamp duty includes exemptions for recognised intermediaries, i.e. is recognised by an exchange as an intermediary. The relief applies to all purchases by the recognised intermediaries on the Exchange of stocks that are regularly traded on the exchange. This broader relief was introduced in 1997 on the back of recommendations by the Securities and Investments Board to support the liquidity of UK equity markets. It also prevents a cascade effect. There are also reliefs for repurchase agreements and securities lending which are also in place to promote liquid equity markets.
FRENCH FTT	The tax includes a number of exemptions that serve to promote efficient markets and protect the ability of corporate to fund themselves[28]: • Primary market transactions, in order to protect the ability of companies to raise capital and it would be against EU law; • Intra-group transactions, as these are not market transactions but relate to the internal financial and prudential management of the firm; • Market-makers, in order to support liquidity and limit volatility; • Securities lending and repurchase agreements (repo), as these are economically equivalent to secured loans and serve to refinance economic activity • CCPs and CSDs, in order for them to fulfil their regulatory objective of more efficient and stable markets While the tax includes an exemption for intermediaries, this is on a transaction-by transaction basis. The conditions to be met in order to qualify for intermediary relief include: - Handle simultaneous buy and sale orders on a regular and continued basis - Execute orders on behalf of clients (including through the interposition of its own account) - Hedge positions related to transactions covered by the two exemptions above
ITALIAN FTT	The Italian FTT provide for a number of exemptions, including: - For primary issuance of shares; - Collateralised financing (repo, etc.) - The transfer of shares issued by small-cap companies (defined as companies with a market capitalisation under €500 million) - Market-making and transactions to ensure the liquidity of new issues - Intra-group transactions and restructuring - Transactions carried out by Italian pension funds - Qualifying "ethical" financial products - Transactions with the ECB or other central bank.]
SWEDISH	This tax was design to target brokerage services. Inter-dealer transactions

[28] Projet de loi e finance rectificative pour 2012 n.4332

FTT	were initially excluded but added in 1987.
SWISS STAMP DUTY	The Swiss stamp tax law contains several exemptions from Swiss securities transfer stamp. The exemptions can apply at transactional level (e.g. the issuance of domestic collective investment units are exempt whereas the issuance of foreign collective investment units are subject to duty), at product level (e.g. for trading in money market papers with a duration of less than 12 months or for trading foreign bonds if the counterpart is a foreign resident person) as well as at counterpart level (e.g. foreign banks and stock exchange agents, domestic and foreign collective investment schemes, consolidated foreign subsidiaries of foreign stock quoted groups as well as for some foreign institutional investors). A specific exemption applies for market makers to the extent that the trades are registered via the so called "trading account" of regulated Swiss banks and Swiss securities dealer active in the market making for third parties. The latter category can only avail of this exemption if previously approved by the Federal Tax Authority. Under the market maker exemption the half of duty due by the Swiss securities dealer would be exempted, only. The second half due for the counterpart may be exempt if a specific exemption applies.
EU FTT	There is no relief for intermediaries. As a result, the tax is applied multiple times for any given transaction, with each intermediary in the transaction chain potentially subject to tax on receipt and transfer of the underlying financial instrument, resulting in a tax rate multiples higher than the headline rate.[29] It creates an unacceptable cost burden for sourcing products as there are normally a number of intermediaries involved. Without such an exemption, the risk is that it becomes uneconomical for intermediaries to provide such services as market-making, facilitating client orders, creating structured products or derivatives and stock lending. This may lead to lower volumes of transactions and less liquid markets. Intermediaries would also face the burden of collecting the tax.[30] Repurchase agreements and securities lending are also taxable and may become economically unviable as a result, as a repo or securities lending each counts as two transactions. This will have an impact on market liquidity and also on the government securities market.[31]

[29] Oxera [2011], *What would be the economic impact of the proposed financial transaction tax on the EU?: Review of the European Commission's economic impact assessment*, December 2011.
[30] ESRI and Central Bank of Ireland [2012], *The EU financial transactions tax proposal: a preliminary evaluation*, April 2012
[31] Riksgalden/ Swedish National Debt Office response to the European Commission FTT proposal (December 2011)

Table 6: Impact on the Market

UK STAMP DUTY	UK Stamp Duty has reduced the efficiency of the UK stock market and produced a bias towards overseas ownership of companies[32]. UK Stamp Duty incentivises the use of Contracts for Difference (CFDs) and derivatives as an alternative to taxable instruments. This has an impact on the quality of the market and on corporate governance.[33] There have also been similar shifts to American Depositary Receipts.[34] In order to mitigate this, UK Stamp Duty includes a 1.5% exit charge for shares transferred to an ADR outside the EU. The level of market activity in synthetic investments designed to mimic equity returns suggests that Stamp Duty displaces 50% of equity turnover but has a minimal impact on activities such as high frequency trading.[35].
FRENCH FTT	In its impact assessment, the French government recognises that the tax will[36]: • Increase transactions costs and reduce transaction volumes; • Reduce the value of French securities; • Increase the cost of capital, requiring companies to offer better returns in order to attract investors. In its impact assessment, the French government estimated that volumes would decrease from their current levels of €1,300bn to €800bn (around 40%) for a tax rate of 0.2%. This is 4 times the expected decrease in turnover than was originally estimated for a tax rate of 0.1% of 10%.[37] Initial analysis suggests that trading in shares has fallen 10-15% in France, with small caps being hit hardest, with a rise in CFDs of 20-25%.[38] Despite the decrease in volume, the tax has not led to significant erosion in market quality but at the same time did not dampen volatility. This relatively mild impact is probably attributable to the many exemptions from the tax, in particular for market-makers.[39]
ITALIAN FTT	A similar move to untaxed substitutes is expected for shares.

[32] Hawkins, Mike and McCrae, Julian [2002], *Stamp Duty on share transactions: is there is there a case for change?*, Institute for Fiscal Studies, 2002
[33] Idem.
[34] Campbell, John Y, and Kennet A. Froot [1993], *International Experience with Securities Transaction Taxes*, National Bureau of Economic Research, December 1993.
[35] Hawkins, Mike and McCrae, Julian [2002], *Stamp Duty on share transactions: is there is there a case for change?*, Institute for Fiscal Studies, 2002
[36] Projet de loi de finance rectificative pour 2012 n.4332.
[37] Projet de loi de finance rectificative pour 2012 n.4332 et projet de loi de finance rectificative pour 2012 n.71.
[38] Credit Suisse [2012], *Impact of the French Financial Transaction Tax*, October 2012
[39] Colliard, Jean-Edouard and Peter Hofmann [2013], *Sand in the chips: Evidence on taxing transactions in an electronic market,* European Central Bank Financial Research Division, 12 February 2013.

	The government estimates that derivatives trading will reduce by up to 80%.
SWEDISH FTT	The value of listed Swedish shares fell by over 5% in the 30 days prior to the introduction of the FTT. Market liquidity was sharply affected by the tax. Following the doubling of the rate in 1986, 60% of the volume of the 11 most actively traded Swedish stocks migrated to London. The migrated volume represented over 30% of all trading in Swedish equities. By 1990, this had increased to 50%. The impact on fixed income was even starker. In the first week of the tax, bond trading volume dropped 85% from its average in 1987 and trading in fixed-income derivatives virtually disappeared. This significantly undermined the ability of the Bank of Sweden to conduct monetary policy and made government borrowing more expensive. This was largely due to a large shift to untaxed substitutes such as forwards and debentures.[40] However, the impact was much less on short term debt instruments such as treasury bills because the rate of tax varied by maturity.[41]
SWISS STAMP DUTY	Relatively high transaction costs on money market funds hindered the development of such an internal market. Trading in shares also dropped as a result. By 1993, 22% of trading in Swiss companies was taking place in London. [42]
EU FTT	The European Commission estimated that the EU27 FTT would reduce equity trading by 10% and derivatives trading by up to 90%. [43] Evidence from UK Stamp Duty and the Swedish transaction tax suggests that the impact on equity trading is likely to be higher than anticipated. The Commission proposal extends to the taxation of repurchase agreements and securities lending, which would become uneconomical under the FTT with significant impact on liquidity.

[40] Campbell, John Y, and Kenneth A. Froot [1993], *International Experience with Securities Transaction Taxes*, National Bureau of Economic Research, December 1993.
[41] ESRI and Central Bank of Ireland [2012], *The EU financial transactions tax proposal: a preliminary evaluation*, April 2012
[42] Wrobel, Marion G [1996], *Financial Transaction Taxes: the International Experience and the Lessons for Canada*, June 1996
[43] European Commission [2011], *FTT Impact Assessment*, September 2011

Table 7: Relocation

UK STAMP DUTY	The tax arguably reduces the attractiveness of UK stocks compared with shares of other companies which are not subject to the tax. This leads to capital flight and a tendency for companies to incorporate outside the UK, leading to the loss of corporation tax revenues as well as stamp duty revenues.[44] In principle, UK Stamp Duty follows the model of an issuance based tax, although there are limitations on the collection system which hinder the ability to collect tax payable on transactions taking place outside the UK. In order to disincentivise transfers of UK shares outside CREST (to other CSDs or to ADRs), there was a 1.5% exit fee charged on such transfers. However this charge was deemed contrary to EU law in 2009 by the European Court of Justice and now only applies to transfers of shares to clearing systems outside the EU.[45] These limitations are themselves somewhat mitigated by the link between the legal enforceability of title and payment of the tax.[46]
FRENCH FTT	In its impact assessment, the French government states that it opted for an issuance based tax because the threat of relocation of a residence-based tax at national level was too great. In its view, an issuance-based tax would not disincentivise companies to list in Paris, as the tax only applied to resident companies, or for intermediaries to relocate but that companies may redomicile outside of France, by way of a holding company, and investors may avoid buying French securities.[47]
ITALIAN FTT	As with the UK Stamp Duty and French FTT, an issuance-based tax arguably reduces the attractiveness of Italian stocks, however no data yet exists to substantiate this.
SWEDISH FTT	The fact that 50% of trading of Swedish equities moved to London shows the high risk of relocation by finding or creating close substitutes. Foreign investors avoided the tax by placing orders with brokers in London or New York. Domestic investors avoided it by first establishing offshore accounts and then using foreign brokers. There was also a substitution effect, for example away from bonds towards debentures, forward contracts and swaps.[48]
SWISS STAMP	Relatively high transaction costs on money market funds hindered the development of such an internal market. Its stamp duty caused the mutual

[44] Hawkins, Mike and McCrae, Julian [2002], *Stamp Duty on share transactions: is there is there a case for change?*, Institute for Fiscal Studies, 2002
[45] HMRC- see link: http://www.hmrc.gov.uk/so/sdrt-claims-ecj.pdf
[46] Hawkins, Mike and McCrae, Julian [2002], *Stamp Duty on share transactions: is there is there a case for change?*, Institute for Fiscal Studies, 2002
[47] Projet de loi de finance rectificative pour 2012 n.4332.
[48] Habermeier, Karl and Andrei Kirilenko [2001], *Securities Transaction Taxes and Financial Markets*, IMF Working Paper, May 2001

DUTY	fund business to migrate to Luxembourg and the Eurobond and equity business to go to London. By 1993, 22% of trading in Swiss companies was taking place in London. [49]
EU FTT	The European Commission does not consider relocation to be a significant risk[50]. According to the Commission, the only possibility for EU resident entities to avoid the proposed tax is to relocate themselves to third countries completely or through the formation of subsidiaries and in both cases give up their European customer base, a strategy which is unlikely to be adopted. However, Oxera notes that the highly mobile nature of capital and financial services raises doubts as to the accuracy of this assessment. The FTT can be avoided by non-EU investors and companies using non-EU financial institutions, and even EU investors and companies can reduce their exposure by using non-EU financial institutions, thereby creating an incentive for the relocation of activity.[51] Empirical evidence from a variety of countries including Sweden, France, Germany and Switzerland supports this view.[52]

[49] Wrobel, Marion G [1996], *Financial Transaction Taxes: the International Experience and the Lessons for Canada*, June 1996
[50] European Commission [2011], *FTT Impact Assessment*, September 2011
[51] Oxera [2011], *What would be the economic impact of the proposed financial transaction tax on the EU?: Review of the European Commission's economic impact assessment*, December 2011.
[52] Wrobel, Marion G [1996], *Financial Transaction Taxes: the International Experience and the Lessons for Canada*, June 1996

Table 8: Residence vs. Issuance

	Residence	Issuance
Scope	Applies to counterparties resident in a Member States applying the tax, regardless of the location so the issuer of the security concerned or where the transaction takes place. More readily applicable to derivatives.	Applies to purchase/sale of securities by firms listed within the tax zone wherever the transaction takes place. Difficulty in applying issuance basis to derivatives.
Risk of relocation	Relatively high risk of relocation to countries outside the tax zone.	Initial risk of relocation is limited as relocation of trading activities does not eliminate the tax liability. Longer term risk of new businesses listing outside the tax zone to reduce cost of capital (see below)
Cost of capital	Increased cost of capital for business inside the tax-zone, affecting investment locations decisions and leading to capital flight.	Increases cost of capital for businesses located inside the tax-zone, disincentivising investment in those forms relative to competitors in other jurisdictions.
Collection	Collecting the tax from financial institutions based in third countries may be difficult where cooperation is needed from third country tax authorities to collect the tax. Requires a high degree of transparency and international cooperation given the global nature of financial markets. Where intermediaries are interposed between the financial institution in a third country and the counterparty in the tax area, the financial institutions may not be aware that the transaction is subject to the tax.	Difficulty collecting the tax where instruments are traded across multiple venues and geographical locations.