EU Financial Transaction Taxes

An Operational Response for Banks to the Developing Landscape

An EC proposal to implement a wide-ranging tax on capital markets financial transactions could become law in 11 EU member states in the next three years.

What would the cost of such a tax be for international banks operating in the euro zone?

This report explores the implications of the EC FTT proposal from the perspective of banks that would be required to comply with the levy.

The report also describes and illustrates how best to develop and put in place back-office systems necessary for compliance with existing FTTs in France and Italy.

Scope of the

EC FINANCIAL TRANSACTION TAX

Transactions by sellside and buyside firms – including pension funds and insurance companies – would all be subject to the FTT

The rate of tax applied to both sides of a transaction – the buyer and the seller – would be 0.1% for securities transactions and 0.01% for derivatives transactions

In theory, banks could avoid paying the FTT due to the globalised nature of their businesses, but likely at great short-term cost as trades would have to be moved away from EU bourses

Banks and industry associations argue that the FTT would 'kill' some markets for certain types of assets because the tax would distort bid/ask spreads, forcing them to artificially widen

EC Financial Transaction

ALTERNATIVE TAX STRATEGIES

A Bank Levy

The EC could implement an EU-wide measure to complement existing levies in France, Germany, the UK and in other member states

A Financial Activities Tax

The EC could directly tax bank profits and bankers in new ways

Remove Debt Tax Biases

The EC could incentivise banks to make more equity investments in corporations than debt investments

The Basics of the French and Italian

FINANCIAL TRANSACTION TAXES

ITALY

Tax rate of 0.1% on equities transactions executed on a regulated market in the EU; equity derivatives taxed at a fixed rate depending on the type of instrument being traded and the notional value of the contract linked to the derivative; tax rate of 0.02% on all types of high-frequency trading orders

FRANCE

Tax rate of 0.2% applied to daily net purchases of listed shares in France-based companies with a market cap over EUR 1bn; tax rate of 0.01% on the notional value of transactions in naked credit default swaps traded in the EU; tax rate of 0.01% on cancelled or modified high-frequency trading orders

Netting and Rebates

The French and Italian FTTs are both levied on a net daily basis by eligible instrument, making it impossible for banks to calculate a tax obligation on a gross basis.

There are a number of methods banks can use to tackle this operational complexity.

Accounting and P&L Treatment

Banks must consider the payment of French and Italian FTTs for trades linked to hedging or proprietary trading activity wherein the levies are not withheld, but still due.

In these cases, standard as well as ad-hoc payment processes can be utilised.

Flexibility of Rules Management

Banks should develop enterprise systems -- either bespoke or off-the-shelf -- to ensure the application of French and Italian FTT rules in the handling of ISIN and ISP lists of shares in both countries covered by the taxes. It is not wise to turn short-term database or spreadsheet calculation solutions into long-term compliance technology systems.

This report provides banks whose capital markets businesses in the EU would be affected by the EC FTT proposal with a series of practical perspectives on how best to envision the implications of compliance with the tax. The report also provides advice for banks on how to plan for and design back-office systems necessary for compliance with equities-centric FTTs in France and Italy. For more information, please visit research.greyspark.com.

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