European Investors

To the
Cabinet of the Minister of Finance
Attn. His Excellency Mr. Johan van Overtveldt
Wetstraat 12
1000 Brussels
Belgium

Brussels: December 27th, 2016
Concerning: Enhanced cooperation in the area of financial transaction tax

Your Excellency,

In the context of the discussions about the introduction of a Financial Transaction Tax (**"FTT"**), the European Investors' Association IVZW (**"European Investors"**) would like to draw your attention to the following.

European Investors, which represents the interests of (retail) investors throughout Europe, has noted with great concern the alarming reports that ten EU Member States, including Belgium, are pushing ahead with their enhanced cooperation procedure in the area of a FTT. This small group of Member States, which does not include the Netherlands and Luxembourg, agreed on a common position regarding the 'core engine' of a FTT. During its meeting on December 5th 2016, the ECOFIN Council took note of the state of play and the next steps envisaged.[1]

European Investors is opposed to the introduction of a FTT. We believe such a tax measure is counterproductive, damaging for the position of European stock markets and also harmful to the European economies and our investors' interests. The introduction of a FTT will deepen divisions within the Capital Markets Union (**"CMU"**). Furthermore, we are seriously worried that financial institutions will pass on the costs of the FTT to professional investors. As a result, investors will be unnecessarily burdened with a taxation which is both unjust and unacceptable.

We therefore kindly request that you protect the interests of professional investors in Belgium and within the European Union by reconsidering your current position and not lend further support to the current negotiations or a consensus agreement on a FTT.

In this regard, European Investors would like to point out the following:

[1] Enhanced cooperation in the area of financial transaction tax – Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax = State of play 13608/16 FISC 164 ECOFIN 948.

1) Investors will pick up the tab

European Investors stresses that a FTT declines return on investment for individual investors, because it confronts financial institutions with additional fiscal and operational costs for most of their transactions on behalf of investors. We believe institutions will not bear these costs themselves. In practice, individual investors and SME's will end up covering these costs in the form of higher prices charged for financial services.

Consequently, a taxation on financial transactions will make investing less profitable. As saving is unattractive due to historically low interest rates, investors will have to accept higher levels of risk when accumulating assets to save for their pensions, the purchase of real estate or the studies of their children. Besides, individual investors could be charged even more with FTT-related costs as their pension funds and insurance companies will be subjected to the tax as well.

2) FTT is harmful to Europe's economies and public finances

Introduction of a FTT will have a wider negative impact on the European economies, as it takes liquidity out of the EU's (and thus Belgian) financial markets. Furthermore, rising capital costs will stifle economic growth in Belgium and could also trigger an exodus of businesses and investment product trading to neighbouring EU Member States, which have not joined the FTT-project. This would seriously harm the competitive position of Brussels within capital markets to the direct benefit of its non-FTT regional competitors Amsterdam, Dublin and Luxembourg.

Sweden was confronted with these undesirable side effects when its government introduced a financial transaction tax in the 1980s. As a result, Swedish share prices plunged short after the implementation of the tax and trading volumes on the Stockholm stock exchange were distorted. Despite the restriction of capital outflow by foreign exchange controls, investors massively fled the tax regime. In 1991, the Swedish government returned on its tracks and abolished the tax.

Anders Borg, who served as Swedish Minister of Finance between 2006 and 2014, had a clear message to the other EU governments when the *BBC* asked him about the Swedish experiment with a financial transaction tax: ***it will not work***. "Between 90-99% of traders in bonds, equities and derivatives moved out of Stockholm to London", Borg said. "The impact was basically that we did not get any tax revenues. It brought in very little tax money while moving most of the businesses outside of Sweden. We abandoned because it was a very, very bad functioning tax."[2]

European Investors wants to spare investors in Belgium and the rest of Europe from such an unwise experiment.

3) FTT will not reach its goals

European Investors stresses that a FTT will be ineffective as it shall never meet its intended goals: (1) ensuring that the financial sector makes a fair and substantial contribution to public finances and the costs of the financial crisis, (2) preventing fragmentation of the Single Market

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[2] http://www.bbc.com/news/business-15123470

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for financial services and (3) discouraging transactions which do not contribute to the efficiency of financial markets or the real economy.

As stated, financial institutions will pass on FTT-related costs to their consumers, so it will be investors and SME's who will end up footing the bill. A taxation on financial transactions is therefore unfit to claw back public costs that were made during the financial crisis. We consider it unjustifiable that individual investors, who incurred huge losses resulting from bail-ins, large settlements and other transgressions in the financial sector, will be forced to contribute again.

Neither will a FTT fulfil its goal to contribute to the functioning of the European Single Market for financial services. Due to the specific composition of an enhanced cooperation procedure, there will be greater division between participating and non-participating Member States. Such fiscal fragmentation is inconsistent with the goals of the CMU and unwelcoming in times of rising political uncertainty within Europe.

Besides, European Investors is convinced that there are less disruptive policies available to mitigate the potential risks of high frequency trading. For example, MiFID II, which has to be complied with by the Member States before January 3th 2018, introduces measures and risk management procedures specifically targeted at businesses which use high frequency trading techniques, as well as the trading platforms on which such businesses are active. The FTT cannot be a viable alternative as it is ineffective in this regard.

4) The FTT does not serve Belgium and the EU

In 2015, the Republic of Estonia withdrew from the FTT process as its government concluded that the costs with a FTT would be higher than the revenues. This shows the arguments above are compelling. Therefore, European Investors would once more like to request the Belgian government to put the interests of its investors and citizens first and oppose European legislation that introduces a common tax on financial transactions.

Naturally, we would be more than willing to provide further verbal or written information in support of the above.

Yours sincerely,

P.M. Koster
Chairman

N. Lemmers
Managing Director