



It is also unclear as to whether the 'issuance principle' outlined in the European Commission's proposal would apply to the euro currency and euro-denominated products. The ECB, which issues euro currency, is established in Frankfurt, one of the participating member states. If it were, the FTT would have far reaching effects across global financial markets given the euro's status as the world's second most traded currency and the importance of participating member states to the global economy.

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## Final thoughts

As of the time of writing, there is uncertainty surrounding the future of the FTT. In April, participating member states wrote to the European Commission to ask for clarification on a number of key issues including how collection of revenues would work and how key terms such as 'purchase and sale' and 'netting and settlement,' were defined.

The decision by the European Council to permit participating member states to enact the FTT using 'enhanced cooperation' is now subject to a legal challenge by the UK government. In addition, a number of European policymakers have expressed concerns over the tax, particularly concerning its impact on bank funding and credit.<sup>15</sup> Most recently, the media have reported that the FTT is unlikely to be enacted in its current form. Last month, European Commission officials have acknowledged that implementation of the tax by January 2014 now looks 'less likely.'<sup>16</sup>

In its current form, the FTT would have major adverse consequences for the FX markets. It would dramatically increase transaction costs for market participants. This could result in the effective closure of the non-spot FX market in participating member states.

The FTT would result in substantial costs to the real economy. The tax would be passed on to end users of FX derivatives, reducing corporate competitiveness and acting as a tax on extra-EMU exports. The FTT would also result in less liquid markets, impair market efficiency and widen bid-offer spreads.

The design of the FTT may make it incompatible with existing global efforts at financial reform. By discouraging forms of financial intermediation, the FTT potentially runs counter to the goals of US and European legislation, which are to encourage greater clearing and margining of transactions in order to reduce credit risk. Ultimately, we hope that policy makers will take note of these considerations, and in particular take in the interests of non-financial corporations, pension funds and the real economy in their decision making process.

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<sup>15</sup> For example, Bundesbank President Jens Weidmann in a speech in Dresden, 24<sup>th</sup> April 2013 and Banque de France Governor Christian Noyer, in remarks made to journalists 28<sup>th</sup> May 2013

<sup>16</sup> Reuters Article, 'Europe Plans Major Scaling Back of Financial Trading Tax,' 30<sup>th</sup> May 2013