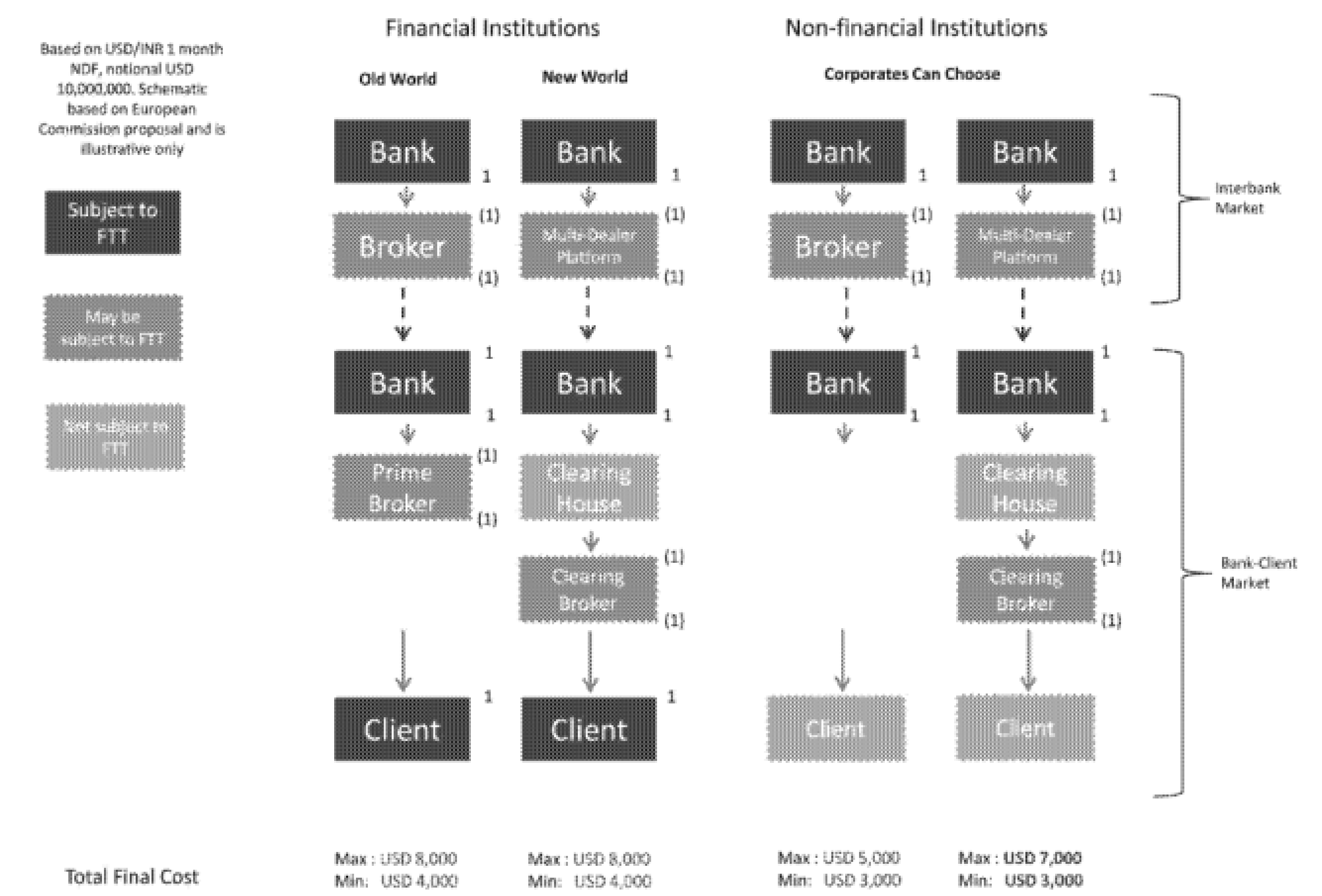
transaction. For example, where a dealer provides liquidity to a financial entity and simultaneously hedges the same transaction with a third counterparty, all three entities are likely to be caught.

The FX industry would be impacted by this cascade effect. FX is an intermediated market, with several potential stages between the client and ultimate liquidity provider. These stages have evolved in response to demand for tighter pricing and a more efficient market. For example, in the case of an NDF transaction, a dealer is able to provide a better price for a client by being able to hedge that transaction through an offsetting one with a third counterparty. By discouraging this kind of intermediation, the FTT may result in dealers providing wider prices for clients.

By definition many FX transactions also contain multiple legs, each of may be subject to the FTT. For example, an FX swap is composed of two forward transactions, meaning that the FTT could be charged twice. FX transactions can also involve very large notionals, which would increase gross costs.

As illustrated by the diagram below, a headline rate of 1bp translates into a much higher effective rate once the multiple steps of a typical FX transaction is taken into account. In this case, the final cost for a USD/INR NDF potentially increases up to 8bp, meaning the absolute cost for a USD 10,000,000 notional becomes USD 8,000.

Figure 1: The FTT 'Cascade Effect'



Source: Deutsche Bank