HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

5 June 2013

Guido Ravoet
Chief Executive
European Banking Federation
Avenue des Arts
56 B-1000 Brussels
Belgium

Dear Mr Ravoet,

Financial Transaction Tax

Thank you for your letter of 21 May setting out your concerns about the proposed Financial Transactions Tax (FTT).

I share your concerns. The UK will not be participating in this tax which is poorly designed, badly-timed and, we believe, unlawfully extraterritorial.

As you are aware, the UK has challenged before the European Court the decision to authorise participating states to proceed with the FTT. We strongly object, inter alia, to the deemed establishment basis of the tax which will penalise financial institutions in non-participating Member States and designate investors from those countries as established in the FTT zone by virtue of who their trading counterparty is.

Aside from these extraterritoriality issues the proposal, in our view, contains numerous design flaws.

One such flaw is the absence of an exemption for market making. This is a key feature of other financial transaction taxes that have been introduced, including UK stamp duty and the French and Italian transaction taxes. It mitigates the so-called "cascade" effect, which has been singled out in IMF work as distortive and undesirable.

Other likely impacts of the proposal give the impression that it has been designed with insufficient regard to wider EU objectives. In particular the tax as designed would, in our view:

- **Hinder EU growth** by disrupting the diverse markets used by corporates to raise financing for long term investment, and to hedge their business risks;
- **Undermine the single market** by splitting the tax treatment of derivatives into two regimes, distorting competition conditions among EU firms; and
- **Conflict with G20 regulatory reforms** in numerous ways including in relation to collateral and bank funding instruments.

In neglecting these wider objectives the proposal does nothing to enhance the EU's standing in key international discussions, and calls its commitment to growth into question, just at a time when we need to show international leadership on recovery and on regulatory reform.

You rightly cite the competitive distortions which will arise from the tax, many of which will disadvantage countries participating in the FTT. But there are no clear winners from this. Within the EU, corporations expanding across borders will pay more to hedge their currency risks. Pensioners and savers with affected investments will pay for the cascade effect. And a global multinational looking for a place to raise or deploy capital will think twice before choosing European markets. These effects will be felt across the EU, not just by those countries participating.

In the UK, we have a transaction tax of sorts in Stamp Duty. This is a narrow tax, with exemptions to avoid the cascade effect and other problems. It applies to shares in UK companies only, meaning a proper geographical link is established. It is modest, but it serves its purpose, raising £2-3bn annually.

Nonetheless, Stamp Duty is a cost on firms raising equity finance and in March I announced that we would be removing the burden of this tax for transactions in shares of companies quoted on growth markets, to support entrepreneurship, investment and growth, as well as reducing the applicability of the tax to investment funds.

This reflects the UK Government's unstinting commitment to growth and economic recovery.

I know this is a commitment shared by our European partners. If this FTT is to proceed then I believe it should be significantly scaled back, with the objective of growth central to the thinking of policymakers in any redesign. The UK stands ready to support in these discussions.

Please could you pass a copy of this onto your fellow co-signatories'.

Best wishes,

George Osborne

GEORGE OSBORNE