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Financial transactions tax - FTT

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Section 1

Financial crisis was a large burden on EU 28 countries

Between 2008 and 2010

5,2%

… Fiscal deficit increased to 5,2% GDP

78,4%

… Fiscal debt increased by 61% to 78,4% of GDP

- 4,5%

… GDP fell 4,5% in 2009 and hasn't recovered to before-crisis trend

Source: Eurostats

Strong political presure to recover government resources invested in the financial system

Section 1

Three different options for recovering funds

	FTT COM	Stamp Duty
Tax base	Purchase & sale of any financial asset on secondary market (shares, bonds, derivatives)	Purchase on secondary markets of EU companies based shares
Taxation principle	Residence : EU counterparties	Domestic issuance
Tax rate	Derivatives: 0.01% of notional value Others: 0.1%	0.5% shares, 1.5% depositary receipts

Section 1

Benefits and costs of financial tax options

	PROS	CONS

Broad FTT (EU)	• Highest collection potential (if derivatives are included)
	• Curb speculation and volatlity (high-speed electronic trading possibly not viable)
	• It does not target specific institutions or activities: minimizes risk of shift to shadow banking,
		• Complicated design, especially for OTC derivatives
		• Off-shore migration of activity if not a global tax:
		    • Capital outflows from European Markets
		    • Drive business away
		    • Drop in traded volumes, liquidity
		    • Downward revenue spiral
		• Pass-through to the final customer:
		• Increased cost of capital reduces trading volumes

Stamp duty (eg. UK)	• It is a narrow FTT that taxes only shares (and possibly bonds) that are traded in regulated markets • Simpler design than broad FTT: technical implementation cheap and easy through electronic plattforms • Issuance tax principle minimizes off-shore migration concerns	• Would not curb speculation • Pass-through to the final customer • Increased cost of capital • Reduced trading volumes of shares

Section 1

FTT timeline

Politically driven initiative, without sustained technical support

Huge UK opposition

G20 refused it

2011

- **Sep:** Original European Commission proposal for a **EU27** FTT

2012

- July: ECOFIN rejects Comission proposal for EU27 FTT
- Aug: French FTT (shares, speculative CDSs and HFT)
- ECOFIN approves launching enhanced cooperation by 11 EZ member states

2013

- **Feb**: European Commission proposal for **EU11** FTT
- Sep: Commission proposal rejected by Council of Legal Services
- UK refers proposal to the EU Court of Justice
- Dec: Comission's legal services confirm legality of proposal

2014

- Feb: Ministerial meeting
- May 6: ECOFIN Political Agreement
- End-2015: agreement on EU 11 FTT on hold

2015

- 27 Jan: Joint Statement 10 member states (including Spain), renewed commitment
- Jun: Discussion in ECOFIN & European Council
- Sep: Discussion in ECOFIN, **renewed interest**

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Section 2

Drivers for the EU27 FTT proposal

Four main Policy Goals behind introduction of financial taxes

- PG1: Social justice: fund bail out costs (crisis resolution)
- PG2: Reduce public deficit (even contribute to ESM or EU Budget)
- PG3: Compensate for VAT absence
- PG4: Curb speculation, reduce bad risk taking

What are the drivers for the EC FTT 27 proposal?

1. Harmonisation of national frameworks
2. Avoid fragmentation in the internal market, given high number of national tax measures
3. Make financial institutions contribute to recover the costs of the recent financial crisis
4. Address concerns about excessive profits in the financial sector
5. Ensure even taxation of the financial sector
6. Disincentive to overly risky or purely speculative transactions

Section 2

Main features of the EU27 FTT proposal

Main features

- **Design: Broad base** (most financial transactions in secondary markets) with low rate. (0.01% derivatives, 0.1% all others. **Both buyer and seller pay** so effectively 0,02% and 0,2%). Liability: **residence principle**
- **Potential revenue:** Starting in 2014. €50bn/year but very dependent on derivatives and UK participation
- **Destination of proceeds.** Not clear. EU COM proposes to divide the proceedings among the EU and party Members but Germany would never accept that
- **Impact over real economy:** -1,76% EU GDP, labor (-0.4M, uncertain)

- Required **full majority** in ECOFIN **extremely unlikely** due to UK veto. Eurozone no longer expected to push the measure alone
- **EU Parliament** definitely **wants to tax financial sector** and curb speculation and France is poised to lead the way

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Section 3

Main features of the EU11 FTT proposal

Enhanced cooperation

11 EU Member States: Belgium, Germany. Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia & Slovakia

Scope

All transactions carried out by financial institutions in all financial instruments and markets linked to the FTT-zone

Minimum rates:

- **0,1%** of transactions in shares& bonds
- **0,01%** of transactions in derivatives

Both parties are taxed

Exemptions

Transactions of the real economy: insurance, mortgages, credit, deposits, etc

Primary markets & financial transactions with **ECB, national central banks, EFSF and ESM**

Taxation principle

Residence (a transaction will be taxed if it involves a financial institution established in FTT-zone)

Issuance (a transaction will be taxed if it involves financial instruments issued in the FTT-zone)

Latest state of play: Sep 2015 ECOFIN meeting

Scope
- FTT would apply to **equities** issued in one of participating Member States
- **All derivatives** (except derivatives related to government debt)
- **Cascading**: all transactions in a chain would be subject to the tax

Exemptions
- **Agents** and **clearing members,** when acting as facilitators
- **Government bonds**, fixed income bonds, repos/reverse repos

Taxation principle
- **Issuance basis**, with possibly a residence based allocation of revenue
- For **derivatives**, a combination of residence, issuance and the counterparty principle may be applied (to be precisely defined)

Significant matters still require agreement: tax rate and definition of market maker exemption
Technical group has “clear mandate” to advance

Estimated revenues from EU11 FTT are small relative to total

€34 billion

… in revenues per year (European Comission estimation)

0,4%

… around 0,4% of EU11 GDP

14,1%

… Spain represents 14,1% of total EU11 FTT revenues

Source: European Commission, Impact Assessment 14.2.2013

Warning: Initial revenue estimates are optimistic. Do not take into consideration market adjustments and fall in trading activity

...

Section 6

BBVA assessment of proposed EU11 FTT

1. The purpose of the agreement seems to be only political
2. The principle of taxation remains unclear
3. FTT is hard to justify from an economic perspective
4. Agreements among EU members are still difficult to be achieved
5. Contrary to EU Capital Markets Union initiative

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Existing financial taxes in European countries

Financial taxes in European counties

Source: PWC, Barclays, eu Commission, BBVA Research

	Type	Legal status	Start date	Tax base	Tax rate	Scope	Proceeds & Destination
Austria	Bank levy	In force	01/01/2011	o Liabilities with adjustments o Derivatives	0.055% - 0.085% on liabilities 0.013% for derivatives	Credit institutions including branches of foreign entities	€500m annually to Treasury
Belgium	Bank levy	Abolished. Under discussion	2010	Deposits (preceeding year)	0,15%	Banks, brokerage firms, life insurance companies	€600m in 2010 to Deposit Guarantee Fund
Finland	FTT	In force		exempts securities traded on stock exchanges	1,60%	wholesale financial transactions	Treasury
France	Bank levy	In force	01/01/2011	Regulatory capital (progressive on RWAs)	0,0025	Credit institutions, investment companies, market operators, members of a clearing house and other financial service providers	€555 m in 2012 to Treasury
Germany	Bank levy	In force	01/01/2011	o Liabilities with adjustments o Off balance sheet derivatives	0.02% - 0.04% on liabilities 0.00015% off balancesheet derivatives	Credit Institutions Collected on a single entity basis	€1.0 bln annually to Banking Fund
Hungary	Bank levy	In force	27/09/2010	Total adjusted balance sheet	0.15% - 0.5%	Banks, insurers, brokers, and other financial service providers	€700m in 2010 – 0.7% PIB to Treasury
Italy	FTT	Proposal dropped		exempts securities traded on stock exchanges	0,150%	wholesale financial transactions	Treasury
Portugal	Bank levy	In force	01/01/2011	o Liabilities with adjustments o Derivatives	0.01% to 0.05% on liabilities 0.01-0.02 bps on financial derivatives	Credit institutions domiciled in Portugal including branches of foreign entities	Treasury
Sweden	Bank levy	In force	30/12/2009	Liabilities with adjustments	0,00036	Banks and other credit institutions including Swedish branches operating abroad and foreign subsidiaries	2.5% GDP in 15 years (€250m annually) to Banking Fund
UK	Bank levy	In force	01/01/2011	Total Liabilities with adjustment	0.07% general 0.0375% long maturity funding	Banks with liabilities > 20 bln GBP	£2½ bln annually to Treasury
Iceland	Bank levy	In force	2011 (end)	Total liabilities	0,041%	Institutions operating as comercial, savings or credit banks (including branches of foreign banks)	Treasury
EU	FTT	Proposal	10/07/1905	Financial transactions	to be determined in Autumn	to be determined in Autumn	EU budget

Section 4

Existing FTT in Latam countries

Financial Taxes in Latin American countries

Source: BBVA Research

	Type	Legal status	Start date	Tax base	Tax rate	Scope	Proceeds & Destination	Observations
Venezuela	FAT	In force	Jan-11	Results before taxes	5%	Banking system	2011: 0,05% GDP	To fund charities
Venezuela	FAT	In force	Aug-11	Net profits, if above $353bn (Mercantil and Provincial bank	1%	Banking system	2011: 0,012% GDP financial system contributors	To fund schools and sport federations
Argentina	FTT	In force		Movements in current accounts. Banks also pay 0,012% for transfers (wages) and 0,0015% to shops with POS (17% deducted from other taxes)	0,60%		1,8% GDP or 12,7% Credit	2010: 3% gross financial intermediation margin, 6 % profits
Brasil	FTT	In force		Credit, change, insurance, fixed or variable income	Dependent on the transaction		R$ 26,6 bn (USD 15,2 bn) (0,7% of GDP)	n.a.
Chile	FTT	In force		Documents in a credit transaction	Dependent on term of the document. 0,05% of the value of the document per month (max 0,6%)		2010: 0,2% GDP, 0.27% credit	No impact on bank results. Tax was halved in 2009 and that had an impact on credit
Colombia	FTT	In force, gradual removal up to 2018		Withdrawal or transfer of funds	0,40%		0,59% GDP, 2,03% credit	Some banks offer non-taxed products
Peru	FTT	In force		All transactions	0,005%		0,2% GDP (0,8% credit private sector)	Null (low rate)
Venezuela	FTT	Dropped	Nov-2007-jun 2008	Credits and debits in corporates' deposits, but interbank overnight	1,50%		1,3% GDP	

Some different conditions existed in Latam when FTTs were introduced

Comparison in terms of FTT effects

	PROS	CONS

EU	• Significant **fiscal revenues** raised
	• **Low collection costs**
	• **Mitigates speculation (?)**
	• **EU integration:** harmonize domestic EU FTTs
	• Additional source of revenues although from **high starting level 35 – 40% GDP**
	• Implemented **after** the **financial crisis**
		• **Disincentivates purchase of equity and bonds** in secondary markets; less liquidity which implies higher funding costs. Against CMU
		• **Disincentivates use of derivatives** by corporates: higher risk
		• **Circumvention and tax base erosion**
		  • Geo relocation: out of the EU
		  • Shift towards shadow banking
		  • Shift towards non-taxed assets
		• **Cascading effects**

LATAM	• Significant **fiscal revenues** raised from low base **15-20% GDP**
	• **Low collection costs**
	• **Mitigates fiscal evasion** (not always)
	• **Macro/financial stability**
		• **Disincentives use of banking services**
		• **Circumvention and tax base erosion**
		  • More shadow banking/informality
		  • Use of cash
		• **Cascading effects**
		• Implemented **during** the **financial crisis**

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Section 4

Lessons learned from previously implemented FTTs in Latam

1. FTTs typically are set as **temporary taxes** to recover fiscal expenses from **financial crisis**

2. FTTs begin with **low tax rates** and **broad base**

3. With time FTTs **consolidate** as a significant and simple **source of revenue** for governments

4. With time FTT **exemptions increase** and **markets adjust** their behaviour

FTTs are made **permanent**, their **tax base erodes** and the **tax rate increases** (generally x2)

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Impacts on day to day operations

1 Increases financing costs of collateralised operations (repos, reverse repos, securities lending), especially for short term maturities (days, weeks)

2 Raises financial transactions costs, especially on short term instruments (1-3 months) and fixed debt instruments

3 Market making activities are made difficult to sustain due to higher costs, complexity and uncertainty in their estimations

4 Managing financial risk is made more difficult, both for CIB activities and the bank's balance sheet operations

5 Competitive equilibrium among EU members is distorted. Geographical displacement of operations outside the EU11 FTT zone is incentivized

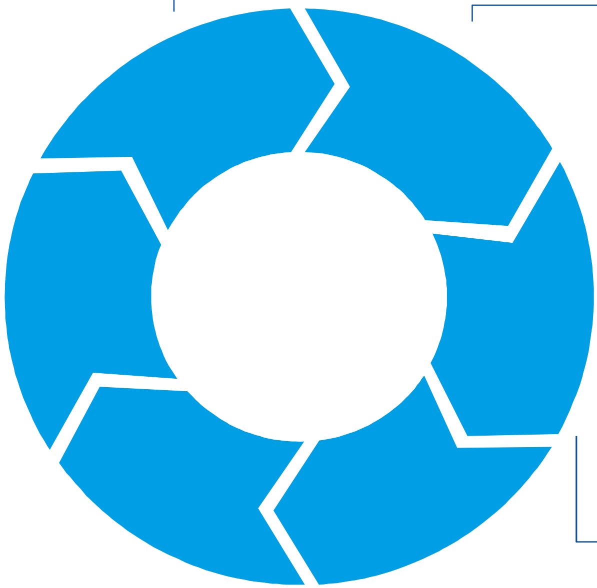
Section 5

Cummulative impacts: risk of overlapping

Beyond Basel III new requirements, there are other regulatory proposals targeting the banking system aimed at reinforcing financial stability while protecting taxpayers' money

Other Taxes

- Corporate Income Tax
- Irrecoverable VAT
- Employment taxes
- Domestic bank levies/FTTs
- Expenses due to assistance to the authorities in tax collection



Resolution Measures

Measures to resolve financial institution in an orderly and effective manner:

- Resolution Funds
- DGS with resolution powers
- TLAC/MREL

Other regulation aimed at reducing risk taking

- Basel III/CRDIV: capital liquidity, leverage
- G-SIB and national SIFI capital buffers
- Crisis Management: cost of bail-in, living will and other requirements

Market infrastructure

Measures to curb speculation

- MIFID (HFT, CCPs, derivatives)
- EMIR

Section 5

Industry concerns of FTT impact

Four main concerns

- Cumulative impact (DGS, Resolution, Basel III, Bail in, SIFIs, Cocos,etc)
- Distortive effects (credit decisions, circumvention)
- Already high contribution to public tax revenues
- Fall in liquidity and financial sector size

Level playing field: EU vs rest of non-FTT world (mostly US)**; within Europe:** tax burden sharing, minimum tax rate, relocation towards off-shore and other markets and/or products

Collection liability: practical issues and costs associated with enforcing collection and compliance. Financial institutions responsible for collection on behalf of counterparties!

Circumvention/Shift effect: tax base erosion through migration of transactions outside the scope of the legislation. Endless spiral of diminishing proceeds and organized markets liquidity

Vicious circle: reduced fiscal proceeds due to reduced trading activity could lead to future tax rates increases and so on

Contrary to CMU initiative: increased financing cost for corporates. Reduce its risk management capacity

Section 5

Impact of FTT on BBVA

1. Increase in the Group's financial expenses and reduction in revenues from market-related commissions. Higher potential impact than in alternative financial taxes
2. Possible reduction in lending and reduction / relocation of market volumes outside the EU
3. It curbs off-balance sheet activities (Asset Management)
4. Lower profitability (ROE, ROA), reduced accumulation of reserves (solvency) and lower long-term growth
5. Payment of tax irrespective of bank's profits
6. Double taxation
7. Banks might be at a disadvantage depending on the tax's regional reach, base and rate applied to the different encumbered activities
8. Complicated design: administrative expenses associated to the collection of FTT and compliance

Thank you !