



**EUROPEAN COMMISSION**  
 DIRECTORATE-GENERAL  
 TAXATION AND CUSTOMS UNION  
 Indirect Taxation and Tax administration  
**The Director**

Brussels, 29<sup>th</sup> June 2016  
 taxud.c.2(2016)3727938 ABT/ij

**NOTE TO FISCAL ATTACHES OF EU MEMBER STATES**

**Subject: FTT - Revenue estimations based on the “orders of magnitude” work of 2015**

Last autumn the Commission has distributed the work it has conducted on the topic of orders of magnitude for financial transactions (turnovers by market segment). In December 2015 it was agreed during the informal ministerial meeting that further work should be conducted before June 2016 with the help of a top-down approach to estimate the possible tax revenues in the light of preliminary agreements regarding the tax base and tax rates.

The outcome of the work on orders of magnitude for financial transactions was presented to all 28 Member States on 28 September 2015 and received an overall positive feedback. The only criticism on substance was that some thought that the transaction-volume figures for over-the-counter (OTC) derivative contracts concluded out by financial institutions of the participating Member States was largely underestimated.

If compared with the results of the top-down approach applied in the two impact assessments of 2011 and 2013, the results of this “order of magnitude” work differ in four important respects (with respect to turnover):

- The transaction volumes (turnover) for long-term debt instruments was estimated to be about three times as high as in the initial 2011 IA estimation;
- The transaction volume of units or shares of UCITS and AIFs was also estimated to be about three times as high as in the successive 2013 IA estimation, most of it, however, being “redemption” and not real trading;
- Transaction volumes of some products, notably of repos and reverse repos, short-term debt instruments or securitised long-term debt instruments were added as they had not been included in the IA estimations;
- The transaction volume of derivative contracts, in turn, was estimated to be about a quarter lower than estimated in the initial 2011 IA.

As a result of these differences, also the ranking of transactions in different market segments as potential sources for FTT revenues altered. Taxing financial transactions will, of course, affect the volume of such transactions and, thus, the revenue potential of an FTT. As already explained in the impact assessments, in the field of securities and alike the FTT will in all likelihood crowd out large parts of the “low-margin” transactions (typically high-frequency trading), notably at times of less volatile markets. In the field of derivatives, certain operations (especially those with lower transaction costs, low premiums and / or focused on hedging low risks) will be negatively affected;

no calculations using alternative taxable amounts (e.g. for options-like derivatives) or time-adjustment were conducted.

The table below provides revenue estimations for the initial 11 participating Member States (PMS)<sup>1</sup> based on the turnover figures (from 2013 and 2014) communicated to the 28 Member States last year by using the formula presented in the impact assessment accompanying the initial FTT Commission proposal of 2011<sup>2</sup> and following the (extended) residence principle.

Revenue estimations broken down by product category<sup>3</sup>

No.	Market segment	Turnover (EUR bn.)	Included in the IAs (estimated)	Estimated revenues (EUR mn.)
1	<b>Shares</b> , out of which:	4.590	Y	<b>5.507</b>
	- EU11 shares	3.672		4.406
	- non-EU11 shares	918		1.101
2	Securities equivalent to shares (entitlements etc.)	2		3
3	Depository receipts	20	N	23
4	<b>Short-term debt instruments</b>	4.560	N	<b>4.220</b>
5	<b>Long-term debt instruments</b>	29.872	partially	<b>33.855</b>
6	Intra-group transfers, out of which:	48	N	54
	- intra-group transfers of debt securities	34		39
7	<b>Units/shares of UCITS</b> , out of which:	7.743	partially	<b>8.775</b>
	- listed funds	232		263
	- non-listed funds (redemption only)	7.511		8.512
8	<b>Units/shares of AIFs (redemption only)</b>	3.180	partially	<b>3.604</b>
9	Exchange of financial instruments	15	N	14
10	<b>Repos and reverse repos</b>	50.825	N	<b>13.833</b>
11	Securities lending, out of which:	1.966	N	535
	- bond lending	1.796		489
12	Certificates	130	N	120
13	<b>Exchange-traded derivatives on:</b>	453.751	Y	<b>9.953</b>
	Equity	30.193		662
	Interest rates etc., out of which:	413.498		9.070
	- directly linked to public debt	45.485		998
	- indirectly linked to public debt	368.013		8.072
	- used to manage public debt	10.337		227
	Foreign exchange	3.948		87
	- used to manage public debt	99		2

<sup>1</sup> The calculations cover all the initial 11 PMS, without taking into account that Estonia would no longer participate in implementing enhanced cooperation in the area of FTT (confirmed in March 2016).

<sup>2</sup>  $R = \tau \cdot V \cdot E \cdot (1 + \tau/c)^{\epsilon}$ , where R stands for revenues;  $\tau$  - tax rate; V – volumes (turnover); E – market reactions (evasion etc.); c – pre-tax transaction cost and  $\epsilon$  – partial tax elasticity with E ranging from 10% for the trading in shares to up to 75% for some derivatives, c ranging from 8 basis points for trading securities to 0.5 basis points for trading derivative contracts and  $\epsilon$  ranging from -0.5 for equities and some debt instruments to -0.75 for all derivative instruments.

<sup>3</sup> The calculations use the taxation principles (extended residence principle, tax rates of 0.1% on each side of the transaction for securities and 0.01% for derivatives, and tax base (consideration for securities and notional amount for derivatives)) proposed by the Commission. The application of the residual issuance principle would bring additionally EUR 312 mn. based on IMF/CPIS (2011 data) and own calculations.

	Commodities	6.112		134
14	<b>OTC derivatives on:</b>	156.720	Y	<b>6.628</b>
	Equity	774		33
	Interest rates etc., out of which:	69.026		2.919
	- directly linked to public debt	2.564		108
	- indirectly linked to public debt	31.949		1.351
	- used to manage public debt	1.042		44
	Foreign exchange	81.169		3.433
	- used to manage public debt	2.029		86
	Commodities	260		11
	Credit	2.481		105
	- directly linked to public debt	1.241		52
	- indirectly linked to public debt	124		5
	- used to manage public debt	62		3
	Other (CfD, exotic etc.)	3.009		127
	<i>Shares and alike (FTT step 1<sup>4</sup>)</i>			<b>4.613</b>
	<i>Listed funds</i>			<b>263</b>
	<i>In-scope derivatives (FTT step 1)</i>			<b>15.016</b>
<b>Σ 1</b>	<b>Total (FTT step 1)</b>			<b>19.937</b>
	<b>Shares and alike</b>			<b>5.714</b>
	<b>Listed funds</b>			<b>263</b>
	<b>Derivatives</b>			<b>16.219</b>
<b>Σ 2</b>	<b>Total (FTT step 2)</b>			<b>22.196</b>

Sources: FESE and LSE (2013 data), WFE (2011 data), BIS (2013 data), ICMA European repo market survey (2011), FSB - Securities Lending and Repos: Market Overview and Financial Stability Issues (2012), EFAMA (2012), EUSIPA (2011 data), BNY Mellon 2014 data on ADRs, Michel Dietsch (2000) data on non-listed companies in the EU 11, own calculations.

As one can see from the table, and on the basis of the Commission proposal, the product categories with the most important revenue-raising potential (after taking dynamic market reactions into account) would be

1. long-term debt instruments ( $\approx$  EUR 34 bn.)
2. repos and reverse repos ( $\approx$  EUR 14 bn.)
3. exchange-traded derivatives ( $\approx$  EUR 10 bn.)
4. OTC derivatives ( $\approx$  EUR 7 bn.) and, lastly
5. shares ( $\approx$  EUR 6 bn.),

with potential revenues from taxing the trading in debt instruments (and repos) estimated to by far outperform the sum of taxing transactions in all other product categories (excluding the redemption of units / shares of UCITS / AIFs) with about EUR 52 billion and EUR 22 billion.

Yours sincerely,

e-signed  
Manfred Bergmann

<sup>4</sup> Steps 1 and 2 are to be understood in the context of the room document #1 for the Council Working Party meeting of 20 May 2016 which suggests a possible way forward towards a compromise for FTT.