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# Financial Transaction Tax– Potential impact on the Money Market

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ECB Money Market Contact Group

 Finanzgruppe

 Bayern LB

# Proposal for a Council Directive 2013/0045

## Implementing enhanced cooperation in the area of financial transaction tax

(7) The imposition of FTT **should not negatively affect the refinancing possibilities of financial institutions and States, nor monetary policies in general**. Therefore, transactions with the ECB, EFSF, ESM, EU where it exercises the function of management of its assets, of balance of payment loans and of similar activities, and the central banks of Member States should not be subject to FTT.

### **EU 11:**

Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain

to further strengthen anti-avoidance of taxation; this is achieved through rules whereby taxation follows the „**issuance principle**“ as a last resort, which compounds the „**principle of establishment**“, which is maintained as the main principle.

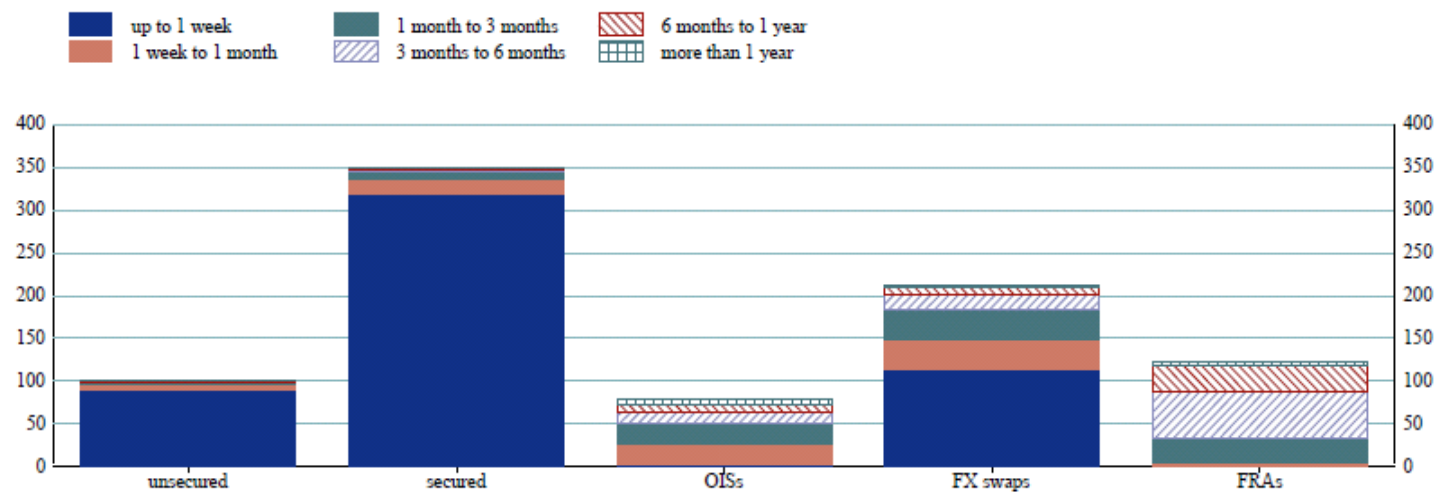
# Money Market Products

		Tax Rate	100 Mio. €
<b>Repo Sec. Lending</b>	<ul style="list-style-type: none"> <li>Exchanges of financial instruments, repurchase and reverse repurchase, securities lending and borrowing agreements are explicitly included into the scope of the tax</li> </ul>	min. 0,1%	FTT per transaction <b>100 Tsd. €</b>
<b>Unsecured MM</b>	<ul style="list-style-type: none"> <li>Not a Financial Instrument (EU Directive 2004/39)</li> <li>Out of the scope</li> </ul>	0 %	FTT per transaction <b>0 €</b>
<b>CP</b>	<ul style="list-style-type: none"> <li>Primary market transactions out of the scope</li> <li>The redemption are not in the nature of a primary market transaction and should thus be taxable</li> </ul>	secondary market min. 0,1%	FTT per transaction <b>100 Tsd. €</b>
<b>Derivatives</b>	<ul style="list-style-type: none"> <li>FX Swap</li> <li>FRAs</li> <li>OIS</li> </ul>	min. 0,01%	FTT per transaction <b>10 Tsd. €</b>

# Maturity breakdown for various money market segments

## 6.2 MATURITY ANALYSIS

Chart 69 Maturity breakdown for various money market segments in 2012  
(index: unsecured volume = 100)



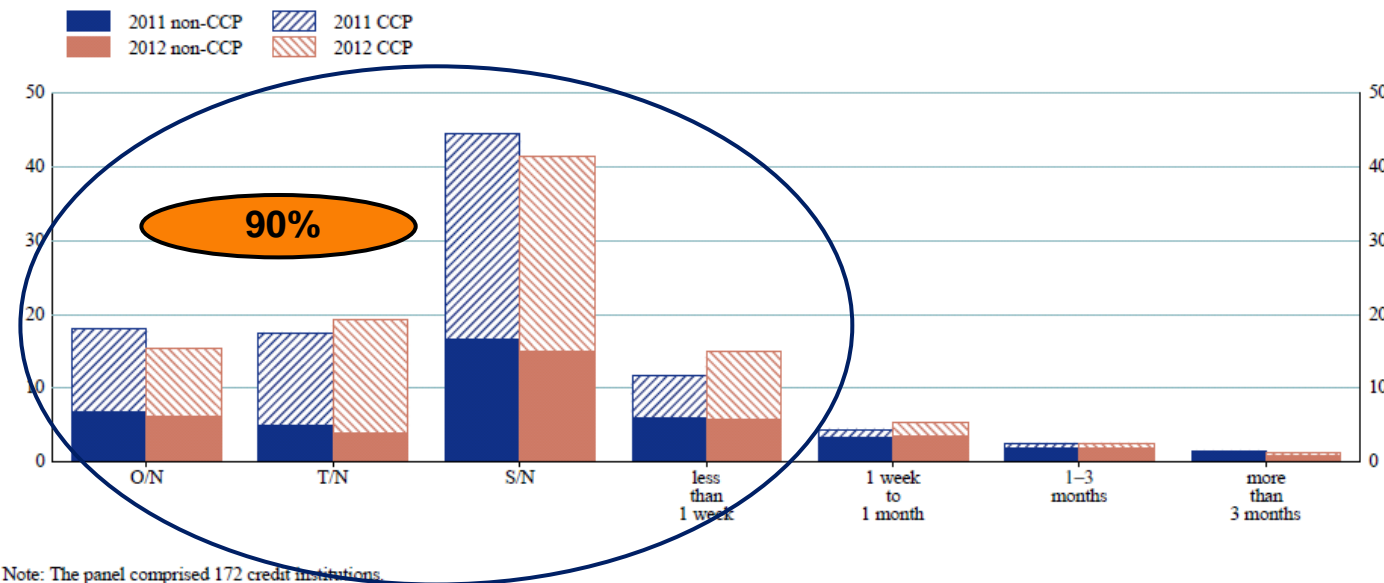
Note: The panel comprised 172 credit institutions.

source: ECB Euro money market survey September 2012

# Maturity Breakdown for average daily REPO turnover

## 3.4 BILATERAL REPOS

Chart 20 Maturity breakdown for average daily turnover in the bilateral repo market  
(percentages of total)



source: ECB Euro money market survey September 2012

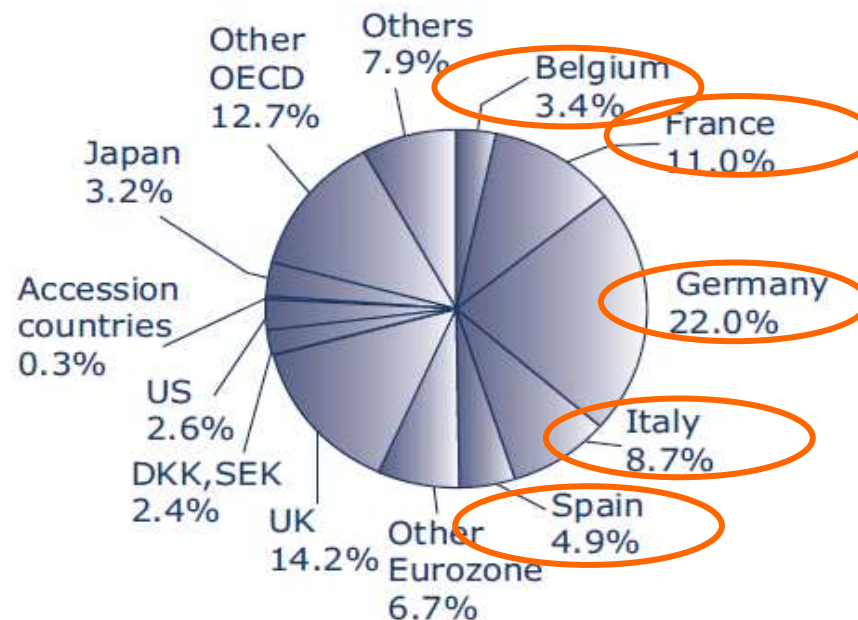
# Bilateral vs. ECB

90% of Repo business is short term funding <= 1 week		
<u>Transaction examples</u>	Interest Rate	FTT
100 Mio.€ Repo O/N transaction (0,06%)	167 €	100.000 €
100 Mio.€ use of ECB marginal lending facility (1,5%)	4.167 €	0 €
100 Mio.€ Repo 1 W transaction (0,06%)	1.167 €	100.000 €
100 Mio.€ 7 x use of ECB marginal lending facility (1,50%)	29.167 €	0 €
100 Mio.€ 1 W ECB MRO (0,75%)	14.583 €	0 €

# Collateral analysis

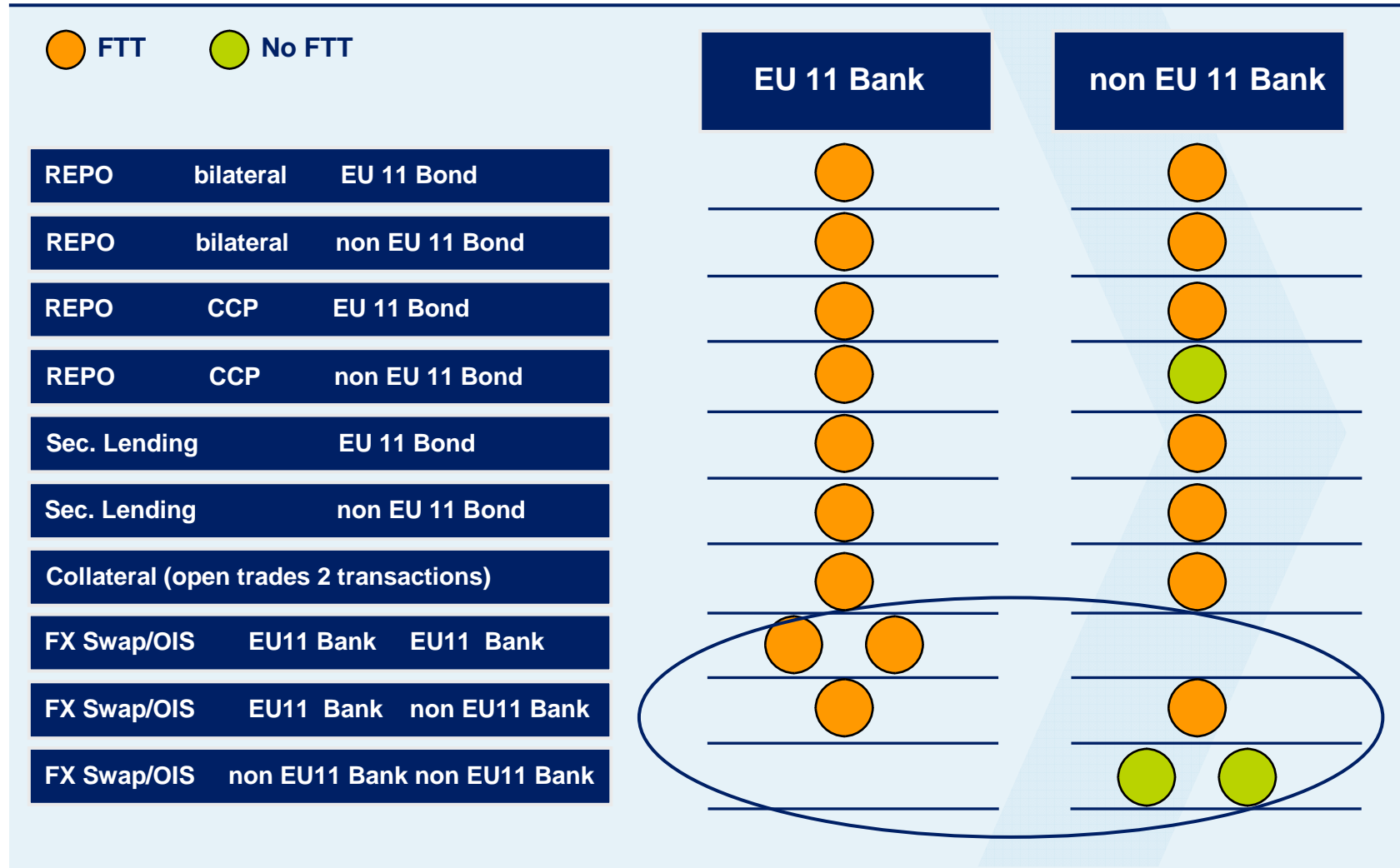
**More than 50% of European REPO Collaterals are issued by EU11 countries**

Figure 2.5 – Collateral analysis (main survey)



source: ICMA European repo market survey December 2012

# Who has to pay FTT





# Potential impact on Money Market Products

	<b><u>unsecured Money Market</u></b> short term REPO business switch to unsecured MM
	<b><u>secured Money Market (REPO)</u></b> massive decrease of short term secured funding
	<b><u>use of ECB open market operation</u></b> EU11 Banks with no access to the unsecured MM have to use the ECB open market operations
	<b><u>Securities Lending</u></b> decrease of high liquid assets (collateral upgrade) transactions between Banks and Investment companies
	<b><u>FX Swap</u></b> massive decrease of short term liquidity swap facilities
	<b><u>Commercial Paper</u></b> decrease of outstanding amount, switch to the unsecured MM
	<b><u>OIS</u></b> bid/Offer spreads increase, decrease in short term maturities, but overall small impact
	<b><u>FRAs</u></b> bid/offer spreads increase, but overall small impact

# Potential issues for discussion



- FTT could divide the European MM into 2 different markets



- FTT undermines the efforts of a functioning interbank market




- Short term MM Products are overtaxed



- EU11 banks will increase the use of the ECB open market operations



- FTT - massive impact on ECB monetary policy

A photograph of three business professionals (two men and one woman) in dark blue suits walking and talking in a modern office hallway with large windows and a reflective floor. A semi-transparent blue arrow graphic points to the right, overlaid on the image.

**Thank you for your attention!**

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