



24 October 2011

Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
LONDON SW1A 2HQ

Dear Chancellor,

As trade associations representing both the users and providers of financial services, we are writing to you in order to highlight our serious concerns over the proposed EU Financial Transaction Tax (FTT), to urge you to continue to take a strong stance against the tax, and to encourage the UK to work closely with those EU member states which are also opposed to the proposals.

While the focus of the UK's opposition has been on the risks of business migration to avoid the FTT, and the subsequent harm this could cause to London as a global financial centre, and hence to the UK economy, we note that the impact study undertaken by the Commission highlights some broader economic concerns applicable to any participating country. The Commission expects only a modest adverse impact on GDP, yet if the assumptions underpinning this calculation are incorrect – and past experience with similar taxes suggests that at least some of them may be – then the impact assessment itself acknowledges that reduction in GDP could be multiples higher. The Commission's own Impact Assessment acknowledges that it does not take into full account the potential impact on the European economy and on Member States' wider tax take, where there seems likely to be a disproportionate effect on EU financial centres.

More generally, it is the strong belief of the associations that the proposed FTT will increase various costs within the financial system and impede the efficient operation of markets which are crucial not only for direct market participants, but for the vast array of end users who benefit from an efficient financial system. A FTT would result, for example, in increased mortgage costs and reduced pensions for the public as the cost of managing risk and investing increases for the financial sector. It would impact ordinary savings and pensions more generally through the direct tax both on the funds themselves and on the sale and purchase of units/shares in investment funds - and private investors will for the first time have to pay tax when they sell securities, not only when they buy them

These costs have been underestimated or ignored by supporters of a FTT who feel that it is possible to limit the impact of any tax without understanding the complex interactions between financial markets and the wider economy. For example, the Commission estimates that between 70%-90% of derivatives trading will leave the EU. Derivatives are vital to exporting and importing businesses and those with an exposure to commodity prices, and also underpin activities as diverse as the provision of fixed rate mortgages and consumers locking in their gas and electricity prices.

We also believe that the specific interests of the UK Government are not served since we expect a FTT to lead to a decline in the UK tax base, including in relation to income taxes. This is both because of the effect a

FTT would have on the UK economy generally, in addition to the impact on the financial sector, and also because at a mechanical level the FTT allocates taxing rights to the parent country when an EU financial institution operates in the UK through a branch.

In light of the potential impact that any such tax would have on GDP, and the particular way in which it would increase costs for a public already struggling in these troubling economic times, the associations believe that a continued and robust opposition to this tax is in the best interests not just of the UK but of all countries potentially within scope, regardless of the size of their own financial sector.

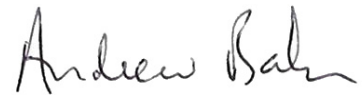
Furthermore we ask the UK Government to ensure that the EU and its institutions instead use their authority for projects to increase employment and economic growth.



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Director General
Association of British Insurers (ABI)



Simon Lewis
Chief Executive Officer
Association for Financial Markets in
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Andrew Baker
Chief Executive Officer
Alternative Investment
Management Association
Limited (AIMA)



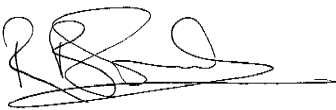
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