European Fund and Asset Management Association

Press release
For Immediate Release

Financial scale of FTT charge will lead to a shift of business away from funds in Europe

- ➔ *The Financial Transaction Tax (FTT) would put many money market funds out of business (who would pay 67% of the tax) and reduce the attractiveness of long term savings in equity, bond and balanced funds*

- ➔ *This would reduce an important source of long-term financing for the European economy and cause retail and institutional investors to switch their savings away from UCITS and towards savings deposits and life insurance products that are not covered by the FTT*

- ➔ *EFAMA requests the European Commission to re-examine its proposal in light of its original goal*

Brussels, 27 February 2012: Recent comments from the European Commission supporting the introduction of the FTT and survey results with positive public response to such proposals highlight that the public have not yet appreciated the very significant cost impact that the FTT would have on the long-term savings of EU citizens.

If applied at the start of 2011, EFAMA has estimated that the annual total impact of the FTT would have reached EUR 38 billion. Investors would have paid EUR 15 billion on the sales and redemptions of UCITS shares/units, whereas EUR 23 billion would have been levied on the sales and purchases of securities by UCITS fund managers. The share of money market funds in the total FTT revenue would have reached 67 percent.

These figures have been computed in a baseline scenario using the data for the sales and redemptions of UCITS shares/units in 2011 and the average turnover ratio of UCITS portfolios calculated for a large sample of UCITS distributed in Europe (0.9 for long-term UCITS and 6.5 for money market funds).[i]

These estimations show that the potential impact of the FTT would be significantly bigger than assumed by the European Commission. Taking into account the impact of the FTT on the value of derivatives transactions, the FTT-take would be even higher, in particular because many UCITS seek to remove currency exposure through hedging.

Furthermore, EFAMA has not attempted to quantify the multiple taxation effects due to the use of funds of funds structures and the use of multiple layers of financial intermediaries involved in the distribution of UCITS shares/units and the management of UCITS portfolios. It follows that EFAMA considers that its estimation of the FTT-take on the UCITS industry is likely to underestimate the real impact of the FTT.

Peter de Proft, Director General of EFAMA, comments:

"EFAMA hopes that its analysis will help increase public awareness of the extremely detrimental impact that the proposed FTT would have on the UCITS industry, its clients and the European economy.

It is clear that the FTT would put money market funds out of business and reduce the attractiveness of savings in equity, bond and balanced funds, thereby reducing an important source of long-term financing for the European economy. It would also cause retail and institutional investors to switch their savings away from UCITS and towards savings deposits and life insurance products that are not covered by the FTT in the Commission's proposal. As this would distort even more the relationship between providers of long-term savings products and endanger the future of UCITS, and would ultimately reduce the choices available to EU citizens for savings, it is not an acceptable course of *action. This would be totally unjustified in light of the reputation that UCITS has acquired as a model of excellence in the long term savings market.*

The estimated total cost gives an idea of the revenue that would be levied if investors had no choice but to continue investing in UCITS. In reality, investors will be looking for alternative investments, a shift that will reduce the FTT revenue and affect the overall structure and growth prospects of the UCITS industry."

– Ends –

---

[i] The estimation of the total impact of the FTT is reduced to EUR 34 billion in a scenario where the average turnover ratio is reduced to 0.5 for long-term UCITS and to 6.0 for money market funds. It would increase to EUR 45 billion if the average turnover ratio was increased to 1.5 for long term UCITS and to 7.0 for money market funds.

For media enquiries, please contact:

Peter De Proft, Director General
Telephone: +32 (0) 2 513 39 69; E-mail: info@efama.org

Notes to editors:

About the European Fund and Asset Management Association (EFAMA)

EFAMA is the representative association for the European investment management industry. EFAMA represents through its 27 member associations and 57 corporate members approximately EUR 14 trillion in assets under management of which EUR 8 trillion was managed by approximately 54,000 funds at the end of 2011. For more information about EFAMA, please visit www.efama.org.