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THE SPIRIT OF ENTERPRISE U.S. CHAMBER OF COMMERCE

THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy

November 6, 2012

The Honorable Timothy F. Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Re: Global and Extraterritorial Financial Transaction Tax Proposals

Dear Secretary Geithner,

The undersigned organizations represent hundreds of thousands of businesses and the tens of millions of American workers they employ as well as millions of investors who provide the resources for our economy to grow. Our organizations oppose a national, global, or regional financial transactions tax ("FTT") as such a levy would contribute to economic uncertainty and distort the ability of investors and businesses to make long-term economic decisions. We greatly appreciate the Administration's advocacy, opposing a financial transactions tax, during meetings of the G20 finance ministers, and we hope that the United States will continue to oppose such policies.

The case against the imposition of a global or regional FTT is as strong today as it ever was, and the arguments against such a levy are well known. A transaction tax will cycle through the entire global economy, harming businesses and investors. Numerous studies have shown that an FTT will impede the efficiency of markets, impair their depth and liquidity, and raise costs to issuers, investors, and retirees. Studies have also shown that FTTs distort capital flows by discriminating against certain asset classes, and major economies that have adopted FTTs or FTT-like levies have experienced negative results, including reduced asset prices, large movements of trading to other venues, market dislocation, and a decrease in liquidity that can lead to higher, not less, volatility. Global markets remain in a fragile state with many economies experiencing historic levels of unemployment and unusually slow recoveries. Now is not the time to experiment with policies that experience tells us will impede growth, fragment markets, increase market volatility, destroy savings, and encourage uneconomic tax-motivated decision making.

These are the reasons why the Kennedy and Johnson Administrations moved to eliminate a domestic FTT in the 1960s.

Despite the United States' sensible opposition to a global FTT, our members are becoming increasingly concerned that certain members of the European Union are determined to advance a global FTT unilaterally, by adopting broad and unprecedented concepts of residency and tax jurisdiction. In July 2012, the French government enacted a tax on secondary market trading in American Depository Receipts (ADRs) that applies to transactions between United States investors wholly within the United States. France claims jurisdiction on the grounds that ADRs trade in concert with the value of an underlying French security held by a depository bank, notwithstanding a provision in the United States income tax treaty with France that was designed to prevent extraterritorial application of stock transaction taxes. The French tax goes into effect on December 1st.

Similarly, within the last month, more than ten European Union countries (Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Slovakia, Slovenia and Spain), wrote to the European Commission or expressed support for a Council Directive authorizing a harmonized regional FTT based on a proposal introduced by the European Commission in September 2011 ("EC FTT"), under the EU's enhanced cooperation procedure. According to two studies by Oxera, the European Commission has over-estimated the revenue and under-estimated the economic harm that would be caused by the EC FTT. Our main concern, however, is that the tax is designed to be extraterritorial, and, as such, it would collect revenue from financial markets and investors around the world to which the minority of EU countries that support the tax have little or no connection. The extremely broad concept of residency embedded in the EC proposal would extend the EC FTT to many transactions occurring within the United States, as the EC has explained clearly in background papers published on its website.

In addition to harming financial markets and financial consumers, a global or extraterritorial FTT could lead to multiple taxation and protectionism that would further impede global capital flows and harm domestic economies.

Accordingly, we respectfully request that the Administration should caution the EU countries not to apply its national FTT laws on an extraterritorial basis and we also request that the Administration should continue to oppose a global FTT or a regional FTT applied globally. In light of recent developments, we would also like an opportunity to discuss these matters further with you at your convenience.

Sincerely,

Securities Industry and Financial Markets Association
Financial Services Roundtable
U.S. Chamber of Commerce
Investment Company Institute

cc: The Honorable Lael Brainard
Mark Sobel