EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

Presentation to Committee on Economic and Monetary Affairs of the European Parliament, 6 February 2012

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I would like to thank the Chair, the Rapporteur and members of ECON for the invitation to participate in this public hearing. The European Association of Corporate Treasurers (the EACT) brings together treasury associations of 17 Member States and Switzerland and Croatia. We do not lobby for individual sectors and have no profit or commercial drivers. In addition to our core purpose, which is to support the professional development of those working in treasury, we are a voice for the real economy end-users of the financial system.

The individuals who are members of treasury associations typically work for manufacturers and service companies. Their core activity is to manage the business risks that arise and to ensure that liquidity and funding is available to support long-term growth. Risk is managed with derivatives – not to speculate but rather, to offset the underlying business risk in importing and exporting and funding.

In this activity treasurers are the customers of the banks.. We have no interest in the trading and risk-taking that goes on within the banking system. However we want to see a stable system providing the products and services needed by the real economy; and we do want to be reassured that these activities are firstly, NOT creating systemic risk, and secondly, that they ARE helping to build deeper and more liquid markets.

I am very aware that discussion of the proposed FTT is associated with a number of highly sensitive issues. These of course include:

- implementation impact on financial centres;

- FTT's effectiveness in extracting some fiscal compensation for the costs of the financial crisis;

- use of FTT to discourage non-value-added activities in the financial system.

The EACT will not become involved in political debate – not even on the likelihood of global adoption of a European-based FTT, although my remaining remarks may suggest a personal view that I doubt we will see such adoption any time soon.

The basic principles that drive the views of the users of the financial system, as represented by the members of the EACT, are as follows:

First – We strongly support action to strengthen financial regulation.

Second – We hope that discussion of FTT will focus on whether the cost of the tax will be carried internally by the financial sector, or whether it will in fact be passed through to the real economy – companies, individuals and pension funds.

Third – We hope to be reassured that an unintended consequence of FTT implementation will not be weakening of the effectiveness of the new financial regulatory environment.

In light of those principles I would like to highlight three areas for discussion around the FTT proposal.

First – The cumulative level of FTT within the financial system. Data from the BIS shows that end-users account for a small proportion of total derivative transactions. Estimates suggest this is closer to 5% than a maximum of 10%, and the figure is certainly declining. Within the system many transactions take place before an end-user becomes involved. Whilst the proposed rate of FTT may seem very low, the accumulation of the tax within the banks adds up to a much more material figure.

Second – Whether end-users will carry the cumulative FTT burden. Commentators and indeed members of ECON in their earlier discussion of FTT have widely agreed that the customers of the banks will tend to face higher costs, as the banks seek to recover FTT and maintain their profit margins. Certainly the experience of treasurers is that if the banks take a consistent position towards their customers even the strongest companies are unable to resist.

Third – How end-users may react. The importance of derivatives for hedging by the real economy is that they are used to mitigate underlying risk in normal commercial activity and in financing the business. End-users may react to higher costs in two ways: by reducing the use of derivatives; and by reorganising activities so that their hedging can continue without the direct and indirect cost of FTT.

Both these consequences are bad for stability and growth in the European Union. Reduced hedging means that more risk is left in the real economy. Higher risk leads to greater caution on investment decisions and less stimulus to growth and employment. Shifting derivative transactions fully outside the scope of FTT weakens European Union financial regulation and undermines the progress being made by the current agenda.

We have just one proposal to bring to the debate, which reflects our routine conviction that the real economy should be protected from the unintended consequences of financial regulation. End-users – the companies, individuals and pension funds I mentioned earlier – should not be asked to carry the burden of the tax revenue being targeted in the FTT proposal.

We would like to encourage ECON to argue for an end-user exemption from FTT, both in the actual transactions and in the cumulative FTT associated with the activities of the banking system, prior to the end-user transaction. We fully recognise that there are huge practical difficulties in this proposal; we hope however that by flagging the principle, we can reinforce the focus of the debate on where the burden of FTT is in reality most likely to fall.

Thank you again for this opportunity and I look forward to answering questions.