

**LEGISLATIVE PROPOSAL PREPARATION ON
EU FINANCIAL TRANSACTIONS TAX**

Finance ministers and Central Bank governors of European Union Member States debated during the last informal Economic and Financial ECOFIN Council of September 17, the current condition of the economy and the situation in sovereign bond markets. The debate on the European Union's financial stability was also attended by representatives of European financial oversight authorities.

The working session exchanged views on a financial transaction tax which could raise money for the EU and make banks share bailout burdens with taxpayers. The idea of a financial transaction tax, which was proposed in the 1970s by economist James Tobin, has re-emerged in political debate in the wake of the financial crisis. Along with bank levies, it is one of a number of ideas being discussed as a possible component of a new crisis management framework at EU level.

The European Union has been promoting the idea, since it appeared on the agenda of global summits in 2009, as a measure to combat the financial crisis. From the major countries, France and Germany, as part of a bilateral drive for closer economic coordination between Member States, support the idea, but the UK and Sweden are opposed and would only support such a tax, if it is implemented around the world for fear that they could lose businesses key to their economy. The US also opposes such a tax, emphasising that it will not have an impact, unless imposed globally, because banks will simply move transactions to jurisdictions, where there is not tax.

The European Commission is set on proposing a tax on trading shares and bonds, foreign exchange and derivatives in the coming weeks for all 27 EU Member States. In parallel, the EU plans to press the issue at a summit of the Group of the 20 world's leading economies in Cannes, in November 2011, through a proposal for a European financial transaction tax (FTT).

According to European Commission's President José Manuel Barroso, money from such a tax could also be used to help finance the European Union's long-term budget and contribute to hinder speculation on the euro zone's sovereign debt.

The European Commission declares that next month it will present a concrete proposal and new discussions will follow in order to seek approval for the legislative measure among member governments and pass the vote of the European Parliament. The idea of a FTT has been universally criticised by the financial industry with critics arguing that it will harm Europe's economic recovery, penalise investors and damage the financial industry.

Cyprus, as international financial centre, has clear interest to object to this EU legislative initiation, as it would be harmful for the bank and the services sector which support the country's economy.

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