Fi2012/677 - The Commission’s proposal for a Council’s decision authorizing enhanced cooperation in the area of financial transaction tax

As the operator of the regulated market NASDAQ OMX Stockholm AB (“NOMX”), we run transparent, efficient and fair trading platforms that provide both institutional and retail investors with transparent and neutral price-formation.

NOMX is of the view that the proposal for a European Financial Transaction Tax (FTT) will not achieve its objectives as articulated by the Commission in its initial proposal1. Furthermore, the introduction of FTT would most likely have severe detrimental effects for the EU. In brief, NOMX believes that there is a good chance that an FTT might cause a geographical relocation to non-EU jurisdictions to avoid the tax. This would lead to an undermining of the EU Single Market. The introduction of a similar tax on the Swedish market during the period 1984 to 1991 demonstrates the negative effects that such a tax can have on market liquidity2 and shows that markets do find ways to avoid such a tax by re-locating, with dramatic consequences for the jurisdictions that do introduce the tax. This could only be negative to the Single Market.

A transaction tax is a tax on market liquidity. It will lead to a self-perpetuating cycle of lower volumes, higher transactions costs, lower share prices and diminished returns. Lower volumes and less liquidity make it more difficult to raise capital – which hurts the ability of companies to invest, grow and create jobs. It will slow economic growth. It will hurt retail investors and cycle through to the economy as a whole.

A transaction tax would be a disincentive for self-directed investors. It creates a significant increase of the overall transaction costs. Investors will find it harder to cover their costs, so they will trade less. As volumes decline, economies of scale will be eroded, and transaction costs will increase.

Weaker demand as well as a tax itself will reduce liquidity. The inability to buy and sell securities will drive bid/offer spreads wider, thus making it more difficult for individual investors to break even.

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1 Avoiding fragmentation in the EU internal market by harmonizing uncoordinated national tax measures; ensuring the financial sector makes a fair contribution to covering the costs of the crisis; acting as a disincentive for transactions that do not enhance the efficiency of financial markets; creating a new revenue stream with the objective to gradually displace national contributions to the EU budget.

2 In Sweden, after the introduction of an FTT in 1984, roughly 30% of trading on Swedish equities moved to London, a figure that steadily increased to 50% of the value of trading by 1990 when the FTT was finally abolished. During the Swedish experience, revenues from the tax on fixed-income securities were initially expected to amount to 1,500 million Swedish kroner per year although, in practice, they did not achieve more than 80 million Swedish kroner in any year whereas the average was closer to 50 million. Moreover, as Wrobel (1995) points out in a paper prepared by the Canadian government "As taxable trading volumes fell, so did revenues from capital gains taxes, almost entirely offsetting revenues from the equity transactions tax that had grown to 4,000 million Swedish kroner by 1988"
and turn a profit on their trades. These wider spreads are a real cost to all investors – including retail investors. It is impossible to exempt retail investors from the transaction tax.

Based on the above NOMX is of the opinion that the legal criteria to enable the Council to decide to enhance the cooperation in the area of financial transaction tax are not fulfilled. More specifically, the enhanced cooperation would distort competition within the EU and undermine the development and territorial cohesion of the Single Market.

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