AEIP

European Association of Paritarian Institutions of Social Protection

AEIP Position Paper on the Financial Transaction Tax

5 September 2019

General remarks

Having in mind the joint position paper of France and Germany on the Financial Transaction Tax (FTT) and following the most recent Council discussions at the level of finance ministers as well as at the level of technical working parties, having taken place in March and in June respectively, AEIP would like to underline the important role of occupational pension funds, while requesting for the exemption of all their investments (direct and indirect) from the FTT. In addition to not for profit pension funds subject to Directive (EU) 2016/2341 (IORP Directive), also funded or partly funded pension institutions subject to Regulation (EC) 883/2004 should be permanently excluded from the scope of the FTT.

Key messages

In view of the upcoming meeting of the Council's technical working party on 26 July, we would like to present a number of valid arguments, procedural as well as substantive, supporting an exemption of occupational pension funds from the FTT:

- **If applied on pension funds or any of the pension funds' investments, the Financial Transaction Tax (FTT) represents a financial charge which will be ultimately borne by the members of supplementary pension schemes and social security pensions with funded liabilities or buffer funds.** We believe it is contradictory that in a context of faltering pension adequacy, 10 EU Member States find it expedient to introduce a new tax which will diminish a members' yield and will therefor lead to a lower pension income. An increased tax burden should not lead to higher pension contributions or lower pension benefits. In addition, the FTT might also produce unwanted and negative intergenerational effects, if and when the FTT would have an effect on the sustainability of financing pension promises (for pillars I and II), since future benefits are rarely as protected as pension benefits received by current pensioners.
- Pension funds and their investments are designed for the provision of common good services and **serve as mechanisms of collective risk mitigation, thus being an intrinsic part of a country's social security system,** whose funding requires a substantial percentage of each country's GDP.
- Pension funds are also obliged, by national supervision bodies, to conduct financial transactions **in order to keep their portfolio aligned with regulatory demands concerning the spread of the risk exposure over the various investment categories.**
- As the debate on the FTT has shifted – given that it is no longer a speculation tax, but rather aims to finance an EU budget – all Member States should participate. **In light of this shift it makes no sense to establish an FTT with only 10 Member States.**
- **The FTT will have a disruptive effect on financial markets**; lacking a global support across the whole of Europe, institutional investors will tend to favour companies which are not incorporated in one of the 10 participating Member States. The FTT will in this view encourage a less desired shift in financial

flows across Europe, **thus becoming an obstacle for the creation of a true European Capital Markets Union**.

- **FTT can increase the economic vulnerability of the participating Member States:** with the Brexit deadline rapidly approaching, companies based in a non-participating Member State are clearly better of then companies based in one of the participating Member States in terms of tax competitiveness.
- In order to entice smaller Member States to join the FTT-system a system of mutualization has been set up in accordance to which these Member States will get more proceeds out of the system than merely their 'national' tax. **However this means that to some extent pension income from members in one Member State is transferred to another Member State,** as part of the "balanced allocation system". **Clearly this cannot be the purpose of an FTT-regime.**
- In terms of procedure, the principle of enhanced cooperation in itself is ineffective: **modifications can only be made via the consent of all participating Members.**
- Applying the FTT on pension funds is contradictory to the resolution of the European Parliament on 3 July 2013, where –among others- it is stated that the diverse risk profiles and business models of pension funds must be taken into account (amendment 54 on article 19 par 2).

Pension funds are financial institutions with a social role which tackle the big EU challenges of an ageing population, the creation of a Capital Market Union, the transition to a more sustainable environment. AEIP asks for an exemption of the pension funds, including all collective investing funds operating for pension funds, in order to safeguard pension savings to provide adequate retirement income to future pensioners.