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By Electronic Delivery

25 January 2012

Michel Barnier
European Commissioner for Internal Market and Services
European Commission
BERL 10/034
B-1049 Brussels

RE: *A Tax on Financial Transactions That Applies to Funds is Not 'Fair'*

Dear Mr. Barnier:

I am writing on behalf of ICI Global[1], a global association of funds and their investors, in response to your London speech on 23 January, in particular the views expressed concerning a proposed financial transaction tax. As a voice for individuals saving through investment funds, ICI Global believes strongly that such a tax, far from imposing a 'fair' and 'just' burden on 'the financial sector', will in fact operate to punish, most unfairly, the very savers and long-term investors who have already been severely damaged by the financial crisis. Individuals saving for long-term goals such as retirement are not 'the financial sector'; nor were they responsible for the global banking crisis and the resulting bailouts. Any tax based upon the 'fairness' of targeting financial firms should not apply to these individuals.

Your concerns regarding the precarious global economic situation are well founded. Restoring the financial health of all European nations is critical for these countries and their residents, for countries with close economic ties to Europe and their residents, and for the global capital markets. Europe already has taken many important steps, and made many hard choices, to address the crisis. The recovery process surely will require many more difficult decisions.

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[1] ICI Global is the global association of regulated funds publicly offered to investors in leading jurisdictions worldwide. ICI Global seeks to advance the common interests and promote public understanding of global investment funds, their managers, and investors. Members of ICI Global manage total assets in excess of US $1.1 trillion.

Taxing the financial transactions of individual investors saving through funds will not advance these goals. These individuals, as investors, suffered significant losses during the financial crisis. As European taxpayers, they provided the cash that was used to bail out failed banks. Having already paid for the crisis and the bailout, individual investors should not be forced—in the name of fairness— to pay again.

Given the unique nature of fund investing, the proposals being considered in Europe would impose substantial tax burdens on individual investors. Funds are owned exclusively by their investors, so any tax imposed on a fund will fall entirely on the fund's investors. Because the proposed FTT would be levied both on investors' transactions in fund shares and funds' portfolio trades, individual investors would pay several multiples of the proposed tax rate.

Consider the simple case of an individual saving €1,000 in a fund for retirement. If the investor purchased fund units for €1,000 and the fund then purchased securities with the investor's €1,000, that €1,000 would be taxed twice. It would be taxed two more times when the investor later redeemed the units and the fund sold securities to pay the investor. And this sequence—a tax levied four times on one simple act of saving—does not take into account the tax that fund investors will bear each time the fund adjusts its portfolio to reflect changing market conditions. Clearly, the tax burden on fund investors is hardly 'negligible.'

Individuals saving through funds will have a more difficult time meeting their investing goals if a tax on financial transactions applies to funds. The tax is particularly damaging in an environment where citizens face a growing gulf between their long-term needs in retirement and the public resources available to meet those needs. Moreover, the European fund industry will suffer as the investment returns on its funds are constrained and its competitive position is eroded. Finally, money market funds—which provide European operating companies with a ready source of short-term capital—could be devastated.

In sum, a tax on financial transactions that applies to individual investors is not fair, will harm fund investors, and could harm all who seek the capital provided by money market funds. Considerable debate surrounds the issues of whether such a tax will increase governments' net revenues or curb 'undesirable' market practices. What should not be subject to debate is the fairness of applying such a tax to individuals saving through investment funds. This result is patently unfair.

Sincerely,

/s/

Dan Waters