Disclaimer: This paper is the result of the analysis carried out by a sub-group within the AGF. However, the paper does not purport to represent the views or the official policy of any member of the AGF.

Work Stream 5 on Financial Transaction Tax (FTT)

Introduction

It should be mentioned, at the outset, that it is clear that a FTT is not a carbon-related financial source and does not fulfill this criteria which the AGF group may conclude is decisive. However, the FTT has other merits it is worthwhile exploring: it has a potentially global basis for a global cause; it has a capacity to raise significant amounts ; it would be, without any doubt, a new and additional source of financing,; one could even argue that there is an indirect link with the carbon agenda, the development of financial transactions being a by-product of globalization, as is climate change.

There is, indeed, a renewed interest for a tax on financial transactions (FTT) in the context of the economic and financial crisis. Some argue that such taxation could reduce speculation or raise revenues as a contribution of the financial sector to the costs of wide public support. Others underline that it might also finance global public goods, development goals or climate change, because of the significant amounts it could raise with a minimum distortion on the economy.

The possible design, feasibility and effects of a FTT are the subjects of many studies. For example, both the staff of the IMF and the European Commission released in April 2010 documents[1] exploring these issues. The Task Force on International Financial Transactions and Development has released in July 2010 a report concluding on the feasibility of innovative financing options to address global developmental and environmental challenges, such as a broad financial transaction taxation or a currency transaction tax.

Within this context, the objective of this paper is to provide the UN Advisory Group on Finance with a technical background for decision makers.

This paper presents the case for a tax on the financial transactions, its technical feasibility and a pros and cons analysis. The most relevant options are presented in some details, including the modalities of their implementation.

[1] Commission staff working document: "*Innovative financing at a global level*" (04/01/2010) and IMF staff document: "*A fair and substantial contribution by the financial sector - interim report for the G 20*" (April 2010).

1. The traceability of financial transactions in today's financial architecture makes a FTT feasible, although several competing designs are possible

1.1. Parameters to take into account in the design of a FTT

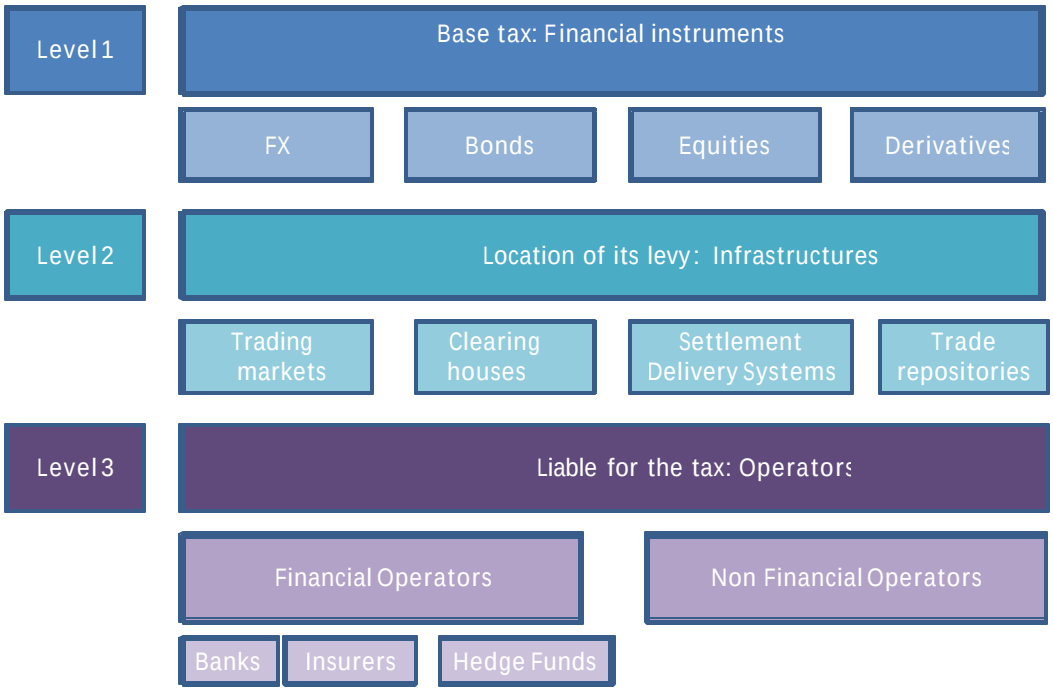
This section explores the different features of a FTT, the data available on underlying transactions (the "tax base") and examples of existing transaction taxes.

- **Definition**

Any FTT should be defined by several parameters:

- **its base** (type of financial instruments taxed): The base could be from very narrow to wide as to cover all financial transactions. Examples include: Foreign Currency Transactions, equities, bonds, commodities derivatives, CDS, all other derivative instruments, and so on;
- **the location of its levy** (financial infrastructures or operators): exchanges, clearing houses, trade repositories, settlement systems or directly at the level of the intermediary or the agent liable for the tax ;
- **the agent liable for the tax** (operator): Financial Institutions (Banks and non-banks).
- **The rate of the tax.**

Figure 1: Context to design a Transaction Tax



- **Amounts of transactions according to the financial instruments concerned**

Amounts of transactions vary according to each type of financial instruments and the location of its transaction. For example exchange traded derivatives accounts for only 14% of OTC

derivatives in June 2009. However, it is expected that this would progress significantly with the financial regulation agenda put in place by the FSB under the G20 guidance.

Figure 1 : Notional Amounts on Exchange Trade derivatives (in Billion $)

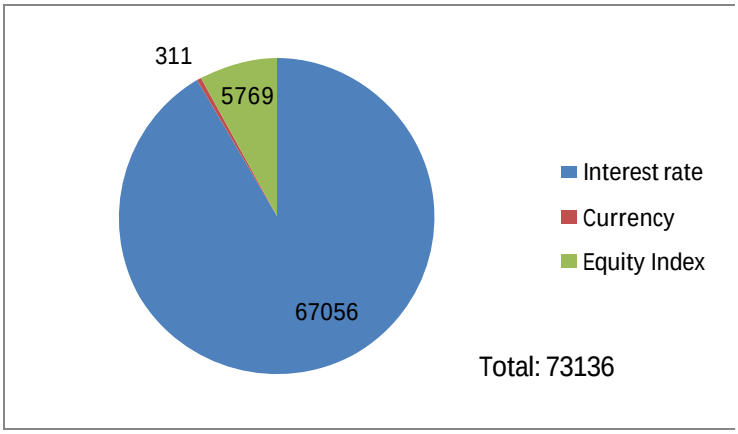
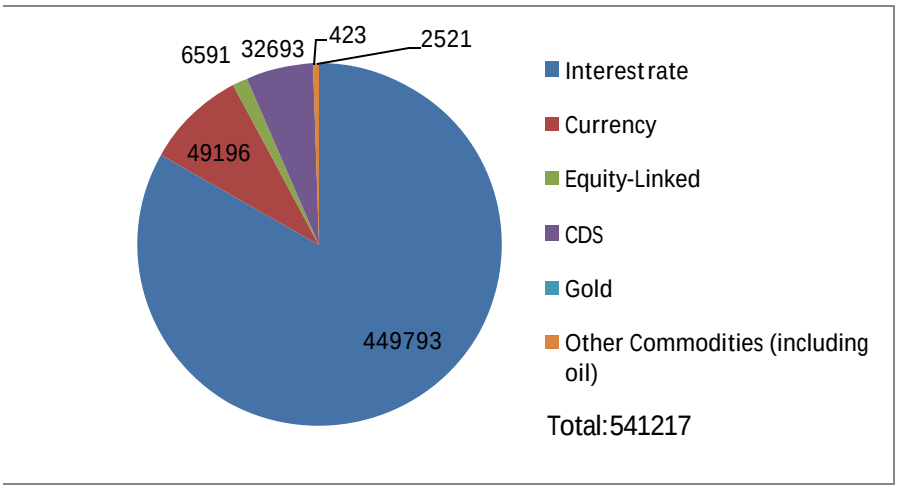


Figure 2 : Notional Amounts on OTC derivatives (Billion $)



Source: BIS 2009

Regarding turnover data, the amount of daily transactions is also quite different from one financial instrument to another[2].

Table 1 : Daily Transactions (Billion $)

Financial Instruments	FX Spot	FX derivatives	Interest rate derivatives	Bond Turnover	Equities Turnover
Amounts	1500	2500	1 700	60	400

Sources: BIS triennial survey 2010, WFE

[2] See also S. Schulmeister, M. Schratzenstaller and O. Picek (2008), "A General Transaction Tax: Motives, Revenues, Feasibility and Effects".

- **Several examples worldwide using different combinations**

In **Taiwan** there are several transactions taxes on spot and derivatives markets[3]:

- **Securities transaction tax:**
    - 0,3% for shares or share certificates comprising the right to shares issued by companies
    - 0,1% for corporate bonds and other securities approved by the government
- **Futures transaction tax:**
    - Between 0,0000125% and 0,00025% per transaction on the value of contracts for interest rates
    - Between 0,1% and 0,6% per transaction for options based on premium paid
    - Between 0,0000125% and 0,06% per transaction on the value of the stock index futures contracts and other futures contracts

In the **UK**, the stamp duty (0,5%) is levied on spot transactions in shares of UK companies.

In other countries a tax on share trading is levied: 1% in **Ireland**, 0.5% percent in **Korea** and 0.1% in **Hong Kong**. Revenues in some of these cases (Taiwan and Hong Kong) are directed to the general budget (and not earmarked for any specific public policy).

1.2. Given today's financial architecture and traceability, different designs are possible

Transactions on any financial instrument can be taxed. The IMF April 2010 Interim Report on Financial sector Taxation states very decisively that "*the FTT should not be dismissed on grounds of administrative practicality*". Several G 20 countries already use financial transactions taxes (for example, the 0.5 percent stamp duty on locally-registered share in the UK). Taxation of derivatives is also possible, as shown by the example of taxation in Taiwan, where FTT on derivatives is based on the notional value of the contract for futures and on the premium for options. The legal definition of derivatives whose transactions would be subject to taxation should be wide enough to limit engineering to avoid taxation.

Any infrastructure or operator could become subject to the taxation. Given technological progress in the electronic tracking of transactions, collection is easier and its cost could be quite small. In particular the transactions tax can be levied on organized markets, trading platforms, settlement/delivery systems, clearing houses or trade repositories. The management cost of the

[3] See also "Financial Transactions Tax, small is beautiful", by Z. Darvas and J. Von Weizsäcker, Bruegel, January 2010.

tax is expected to be small, especially in case of a taxation of infrastructures as other levies already exist.

Three broad designs are possible:

- **a taxation *of an infrastructure***, levied on the amount of transactions dealt each year on specific infrastructure. Several infrastructures already levy today a small contribution on transactions dealt on their platforms (example of the Continuous Linked Settlement (CLS) on the exchange rate transactions or of the trading fees on some NYSE Euronext platforms). The taxation would be passed on to the operators using the infrastructure (sellers as well as buyers) by raising this contribution. The advantage of this design is the ease of the collection because it is centralized at the level of the infrastructure. Furthermore, the collection is not costly because it relies simply on the increase of an existing contribution;

- **a taxation *of the operators***:

    - **either at the level of an infrastructure** (on the model of the VAT, the proceeds of the tax would be colected by the infrastructure but paid by the operators). In this case, the administrative cost of the collection and its complexity for the infrastructures and the operators would be more important than in the first design. However, the collection of the final product would still be centralized, which would be easier for the final collection by the fiscal administration;

    - **or directly at the level of the financial operators themselves** (banks, insurance companies and funds) which do have a reliable accounting and fiscal information system whereby they already trace today the transactions they proceed. As the collection would not be centralized, it would be more costly for the fiscal administration to recover. However, this design enables to cover a broad range of transactions, going through infrastructures or not.

2. Analysis of merits and weaknesses of a FTT:

2.1. Main advantages:

- **Important potential revenue**

Amounts raised are more or less significant according to the design. Taxation at the level of trading infrastructures or clearing houses would target only a small part of the financial transactions, among the less risky, given the fragmentation of the trading landscape and the growing part of OTC derivatives[4] which don't use these infrastructures (at least until new rules are passed under the G20's regulation agenda).

However, as shown in part 3.3 of this document (assessment of revenue stream), the estimated revenues are consistent, even with a very small tax rate.

- **Financial Additionality**

[4] Today in Europe, 40% of transactions on shares are OTC transactions.

The product of a FTT would be new money coming from a new source without significant eviction from other development or climate related financing. It would not be the result of the redirection of financial flows from sources already used.

- **Practicality and quick operationalization**

As mentioned above (point 2), the implementation of a FTT is not a question of feasibility, although strong will is necessary to oppose traditional objections of complexity. It is even a rather simple way of raising revenues, in so far as it can be built on examples of taxes on financial transactions which already exist and the infrastructures likely to be the centralized points of collection of the tax do exist already.

The implementation of the tax could in theory be considered in any country or region, separately from decisions taken in other countries: legally, the implementation does not depend on an international decision. For example, a Government of a country hosting a financial infrastructure could decide to tax this infrastructure depending on the transactions taking place on its platform in order to finance climate change. Questions could be raised, in this case, on how to compute the burden-sharing: would the revenue raised be taken into account as a contribution from the host country, or be broken down according to a key of the countries of origin of the transactions?

However, in practical terms it is likely that an implementation worldwide is a condition for its efficiency. A FTT limited to a small number of countries would not raise enough revenues to meet the needs: the base would be too narrow and the avoidance of the market subject to the taxation would result in a progressive decrease of this base. A global basis for the FTT is, in principle, a condition for i) a maximized return from taxation because the avoidance is thus limited and ii) a global playing field for global financial players. The universality of the FTT does not have to be perfect and to cover 100% of jurisdiction. The collection of a FTT in all major financial centers would prevent avoidance, given the importance of liquidity and legal security requirements .A mechanism of sanctions for non cooperative financial centers could be implemented in order to further minimize the risks of relocations.

National and international legal constraints should however be taken into account.

- Any taxation regime of this kind would indeed raise important questions in terms of national legal constraints and procedures in both cases of the taxation of operators or infrastructure: parliamentary authorization to raise the tax; capacity of the national authorities to collect the tax and to allocate the revenues to international institutions or funds; territoriality of the tax: for example, in case of the taxation of an infrastructure, legal and political feasibility in the host country of the infrastructure/under the law ruling the infrastructure to collect funds on behalf of the international community for a non-national purpose and the devolution of the proceeds to a global cause… Each jurisdiction should be given enough flexibility to deal with this kind of internal constraints. At the national level, a legal scheme would have to be designed with the support of the national tax authorities, in order to authorize, mandate and collect the FTT.

- Some articulation at the international level will be needed as, on the one hand, the revenues will have to be fairly shared (all revenues cannot reflect only the "contribution" of only the host country) and, on the other hand, double taxation avoided. An

international or regional based instrument may be needed to implement such a scheme. In addition, the compatibility of such a scheme with GATS (annex on financial services) and EU free movement of capital needs to be confirmed, as well as the test of proportionality between the objective of the tax and its amount.

2.2. Costs and how to mitigate them:

2.2.1. Possible distortive and avoidance effects on the financial system and real economy and means to mitigate them;

While it is difficult to quantify and would depend on financial markets creativity, the distortion and avoidance effects could be limited as long as the rates of a FTT remain low.

Three main channels deserve attention:

- **Financial intermediaries might try to find strategies to avoid paying the new tax, but this distortion would be significant only in the case of a high tax rate.**

If the FTT is not uniformly applied across countries and asset categories, financial intermediaries could seek to benefit from discrepancies between jurisdictions.

Engineering could also allow escaping from a new tax on financial transaction, for instance using "contracts for difference" as in the U.K. - a financial product which reallocates income associated with share ownership without changing ownership itself.

A possible way to reduce distortions linked to avoidance would be to set a tax rate inferior to the avoidance costs (aggregation costs, engineering costs, etc[5]…).

- **Theoretically, an FTT could slightly reduce market efficiency in dealing with uncertainty through hedging and portfolio diversification.**

By limiting short-term speculation, the FTT would also limit arbitrage– no operation would be done if returns are not at least twice as big as the FTT. Price adjustments and informative contents might be distorted and capital allocation decisions could be complicated.

An FFT could also affect liquidity on a wide range of assets and each transaction would then have a greater impact on prices. This increase in volatility would imply more uncertainty on the cost of portfolio reallocations and hedging. For instance, an FTT on Foreign exchange transactions could hurt in particular the small open economies by reducing the margins of exporters whose contracts are mainly denominated in foreign currencies and need to be hedged. Companies and governments could face higher borrowing interest rates if the national currency becomes too illiquid and too volatile following the tax implementation. Overall, the impact on liquidity can also be reassessed according to recent development. For instance, high frequency trading, which used to be considered as a useful provider of liquidity, is now also regarded as a risk and its reduction would not be considered as inappropriate.

An ideal solution would be to have as many financial transaction taxes as financial assets, in order to adapt rates to conditions on specific markets and to avoid useless liquidity reduction. The

[5] see also next session on the costs of non using trading infrastructure.

implementation of a general but reasonable FTT could be a first step before fine-tuning the framework if necessary.

- **With small effects on returns and cost of capital, an FTT would only have very moderate impacts on savings and investment.**

Following the announcement of an FTT, stock markets could be affected because of the reduction of liquidity and attractiveness; yet, this effect would be very limited: a tax of 0.01% is estimated to decrease the German stock market index by only 0.45%[6].

Lending rates could also increase if financial institutions keep their margins unchanged: yet, a 0.01 percent securities transactions tax in the U.S. would only increase the cost of capital by 0.2-3.6 basis points, as mentioned by the IMF[7]. The effect on household savings would thus be very limited.

2.2.2. Evaluation of the risks of dissuasive impacts on the use of infrastructures

If taxation is implemented at the level of an infrastructure, the cost of going though this infrastructure would be higher. This could dissuade operators to continue using infrastructures or to start doing so.

Consequently, in order to avoid financial engineering and bypass, **the tax should be implemented so that financial institutions should have incentives to pay the tax given the advantages provided by the use of the trading infrastructure where it is levied**. Basically the design of the tax should be done so that financial institutions should have a net interest in using the trading infrastructure where it is levied. As Table 2 shows, there are multiple advantages of using market infrastructure: reduction in legal risk, counterpart and settlement risk.

Table 2: Costs and Advantage of infrastructure (where the levy is raised)

Infrastructure	Advantage	Possible cost
Clearing House	Reduction in counterparty risk	Margin Calls
Settlement/delivery system	Reduction in settlement and legal risk	Fees
Trade Repositories	Reduction in legal risk	
Other Trading structures	No direct cost	Legal counterparty and settlement risk and potential prudential penalties

Going further, it is also possible to implement the levy on an infrastructure back-to-back to a regulatory requirement to use an infrastructure, thus forbidding the mere possibility of avoidance.

2.2.3. The incidence of a FTT on non financial operators

Increasing the tax burden on the financial sector could impact on end users of financial services, as mentioned in the interim report of the IMF. The result could be reduced returns

[6] See "Financial transactions tax: small is beautiful", by Z. Darvas and J. von Weizsäcker, Bruegel, January 2010.

[7] See "Draft Final Report for the Group of Twenty Ministers on a Fair and Substantial Contribution by the Financial Sector", IMF, May 2010.

to saving or higher costs of borrowing or services in general, for instance. A large part of the burden will probably be passed on to the final consumers of financial services, both businesses and individuals.

However, this is a major issue only if the taxation does not reduce the rents earned by financial transactions but is passed to end-users. In the case of a FTT designed for raising funds to finance climate change, this incidence should be taken into account but does not invalidate the principle of a taxation. Moreover, this inconvenient is common to any form of taxation and is not specific to a FTT.

It can be argued that other types of taxes on the financial sector could have less distortive effects or consequences for the end-users, such as the Financial Activity tax, or the Financial stability tax advocated for by the IMF in its report. This avenue is not further explored here, as this debate is taking place in the G20 as part of the response to give to a specific agenda, i.e. ways to take into account systemic risk in the post-Lehman world. G20 members are currently debating the accuracy of a financial levy as the response to this challenge and there is a range of views on whether such a levy should be fuelling resolution funds or national budgets. In the later case, countries could still decide to devote the proceeds of such a levy to finance their share of the climate finance requirements, but it would be akin to a budget contribution and some countries might have legal difficulties in specifying the use of a tax proceeds (budget universality rules).

3. Concrete implementation: details on possible designs

Option 1: taxation through settlement systems

a/ A tax on foreign exchange (FX) transactions through CLS (settlement system):

The tax would affect every /each FX transaction on CLS, namely spot transactions, and transactions on FX derivatives (forwards, options, swaps and non deliverable forwards). The tax would be paid by the 60 CLS banks and third parties accessing CLS through one of the 60 Banks.

b/ A tax on transactions of all financial instruments settled by a securities settlement system:

The tax would target every financial instrument transaction settled by a securities settlement system.

In both cases, the product of the tax would be collected through the electronic system of the infrastructure. The fiscal administration of the country hosting the infrastructure would collect the revenue and transfer the revenue to the entity entitled to recover it to finance climate change. Further work needs to be done to ascertain that this is feasible and under what type of formal arrangement, given the location of the targeted infrastructure.

Option 2: Direct taxation of financial operators

Any financial operator which proceeds to a financial transaction would be subject to the tax: banking and insurance companies as well as funds. As it would be comprehensive, it would hopefully mitigate the avoidance of the tax by the use of non taxable entities.

The tax would have a very broad base and target every financial instrument transaction: equities, bonds, derivatives, foreign exchange transactions. Internal operations within the same group would be excluded from this base. It wouldn't distinguish the transactions according to the nationality of the counterparty. This broad base would mitigate avoidance of the tax, in particular thanks to technical engineering.

One advantage would be that it would target all the transactions, even the ones which are not traded, compensated or settled on infrastructures. One could even decide to tax only the latter: even if it would reduce automatically the amounts raised, since it would discourage OTC trading, it would have the advantage of being in line with the G20 objectives to reinforce transparency of financial transactions and would be an incentive for financial operators to go through infrastructures not subject to the taxation.

The tax would be levied by the fiscal administration of the country where the parent company of each financial group is located. To ensure a level playing field, the system would have to be consistent across borders, or at least across all major financial centers of the G20, to avoid relocations. Non cooperative centers which would not implement it would be subject to appropriate "sanctions".

4. Assessment of reliability and predictability of revenue stream

In order to assess the revenue streams of a potential tax on financial transaction we compute the following formula (work in progress):

$R = Vt$ where R is the Revenue stream, V the Volume of transaction after tax and t the tax rate. The main issue is to estimate the volume after transaction. To do so we follow the common practice[8] that relies on a causal relationship between transaction costs and volume. A financial transaction tax increases the transaction costs, measured by the bid/ask spread, and leads to a decrease in volume. The total amount of reduction in volume depends on the elasticity of volume of transactions to the transaction costs.

$V = days \times V_0 \times (1 + \frac{2t}{k})^{e}$ where V_0 stands for the pre-tax volume, k the initial transaction costs (defined as an average bid/ask spread on all currencies) and e is the elasticity of volume of transactions to the transaction costs. In this framework the effect of the FTT on volumes depends on the initial value of transactions costs (the higher they are the smaller the effect of the FTT) and on the elasticity.

[8] See for instance the Landau Report (2004), B. Jettin & L. Denys (2005), "Ready for Implementation. Technical and Legal Aspects of a Currency Transaction Tax and Its Implementation in the EU" and R. Schmidt (2007), « The Currency Transaction Tax: Rate and Revenue Estimates ".

In order to compute the revenues for the different options, we assume that the elasticity of volume is -0,5[9] or -1, which are often taken in papers that focus on Currency Transaction Tax. The initial transaction costs are taken from Schmidt (2007).

Option 1a: A tax on foreign exchange (FX) transactions through CLS (settlement system)

According to CLS, more than 75% of foreign exchange transactions (spot and FX derivatives) are settled through this infrastructure, which accounts for roughly 3000 Billion USD a day[10]. A tax of 0,01% would yield between 47 and 60 Billion USD a year with a reduction of volumes between 21 and 37%, a tax of 0,005% would yield a revenue of around 30 Billion USD a year, with a reduction of volumes between 12 and 23%. Taxes of respectively 0.0025% and 0.001% would yield a revenue of respectively around 16 Billion USD a year and 7 billion USD, with a reduction of volumes respectively between 6.5% and 13%, and 3% and 6 %. (Table 3).

Table 3 : Annual revenue for a tax on CLS (Billion USD)

Tax rate	Elasticity of -1	Elasticity of -0,5
0.001%	7	7,5
0.025%	16	17
0,005%	29	33
0,01%	**47**	**60**

Sources: CLS, BIS and authors'calculations.

Option 1b: A tax on transactions of all financial instruments settled by a securities settlement system:

A FTT could be levied on any market infrastructure and in particular on settlement systems such as CLS, TARGET 2 Securities or DTCC. In order to compute the potential revenues, we need data on the daily turnover of each settlement system.

To do so, we use the red book, issued by the Bank of International Settlements[11] and public data from settlement infrastructures. The issue is that there are multiple settlement infrastructures in the world, so as a first step we rely on a few of them: CLS, DTCC and the G10 Exchanges and trading system (such as NYSE and Nasdaq in the US and Eurex in Germany).

[9] A more detailed study would estimate elasticity for each type of financial instruments. Such a task would require the collection of time series data on volume and bid/ask spread over the recent years, which are not always publicly available.

[10] See "Briefing on The Global FX Market and the role of CLS Bank"

[11] See BIS website for the latest edition of the red book, see also ECB website for the blue book, encompassing European countries.

It is possible to design an FTT with different tax rate depending on the type of financial instruments[12] and/or the location where it is levied but we assume a fixed rate of either 0.005% (baseline scenario) or 0.01%.

A tax of 0.005% levied on DTCC would yield around 50 Billion USD (Table 4), given the large amount of transactions settled by this institution[13] (5920 Billion USD a day in 2009), with a reduction in volume between 20 and 30%.

Table 4: Annual revenue for a tax on DTCC (Billion USD)[14]

Tax rate	Elasticity of -1	Elasticity of -0,5
0,005%	49	60
0,01%	74	104

Sources: DTCC and authors'calculations.

A tax on other settlement infrastructures, such as organized markets in the G10 would also be sizeable, given daily transactions of around 1081 billion USD a day. A tax of 0.005% would yield around 10 billion USD (Table 5) and a tax of 0.01% around 15 billion USD.

Table 5: Annual revenue for a tax on G10 exchanges (Billion USD)[15]

Tax rate	Elasticity of -1	Elasticity of -0,5
0,005%	9	11
0,01%	13	19

Sources: BIS red book and authors' calculations.

Overall, a tax of 0.005% on the infrastructures studied in this section and a tax of 0.0025% on foreign exchanges would yield around 80 billion USD a year (Table 6) and lead to a reduction in volumes of 20 to 30% on Exchanges and 5 to 10% on Foreign exchanges.

Table 6: Annual revenue for a tax of 0.005% on Settlement infrastructures (Billion USD)[16] and a tax of 0.0025% on FX

Infrastructure	Elasticity of -1	Elasticity of -0,5
CLS	16	17
DTCC	49	60
G10 Exchanges	9	11

[12] For a rationale see for instance « Securities Transaction Taxes for US Financial Markets" by Pollin et al., 2002.

[13] See DTCC website, the annual amount of securities settled is divided by 250 days to get the daily turnover.

[14] For simplicity, we assume the same fixed transaction as in the FX market. Actually transactions costs may be higher leading to larger revenues and smaller decrease in volumes.

[15] For simplicity, we assume the same fixed transaction as in the FX market. Actually transactions costs maybe higher leading to larger revenues and smaller decrease in volumes.

[16] For simplicity, we assume the same fixed transaction as in the FX market. Actually transactions costs may be higher leading to larger revenues and smaller decrease in volumes.

Total	74	88

5. Political Acceptability:

The principle of taxation of financial transactions to finance climate change could be questioned. However, the financial sector is a very large source of potential funding, which may justify by itself the choice of this source, among others. Moreover, it can be considered that the funding of global public goods such as climate change could be insured, at least partially, by a sector which benefits from the globalization of the economy.

If such taxation would be implemented, the tax revenues and tax burden would be located in the major financial centers worldwide.

In the case of a taxation of transactions through the infrastructures, the revenues would be transferred to the administration of the country where the infrastructures are located. This administration will bear the burden of the administrative cost relative to the collection (which should be however limited, as seen above). Whatever the infrastructures, they are located today for most of them in the developed countries. For instance, CLS, located in the UK, concentrates 75% of the foreign exchange transactions. The revenues would afterwards being transferred by the administration to the financing of climate change.

Regarding this incidence issue, as a FTT is international by nature (or at least regional), meaning the tax base is difficult to relate to a specific country, the concept of national impact is in this context merely irrelevant. In reality, the operators subject to the taxation (either directly or indirectly) would be more diversified than the infrastructures, because less centralized. A differentiation of funds collected through a global FTT levied directly at the level of operators in developed countries as well as in developing countries could be made ex post. For example, developing countries could benefit from a specific compensation (for instance, they would received a sum equivalent to their economic agents contribution and spend it for domestic purposes. It would be more acceptable for other if those domestic purposes are nevertheless climate-related). In order to define criteria that could be used to look roughly at the impact, we may want to consider for a foreign exchange tax to look into the percent of foreign exchange transactions that involve developing country currencies. On a global basis, based on the Bank of International Settlements, April 2010 Triennial Central Bank survey which calculates the shares of different currencies in global FX trade, the calculations lead to 93% of the volume involving Annex-1 currencies, 7% involving non Annex-1 countries. If the estimation is restricted to CLS system, similar results are achieved: 91,5%-8.5%.

According to the design chosen, the burden might be bigger on some operators compared to others. For instance, taxation on foreign exchange transactions on CLS would leave aside some foreign exchange transactions which are not subject to CLS.