15 February 2010

H.E. Naoto Kan
Chair, APEC Finance Ministers’ Meeting &
Minister of Finance
Japan

Dear Minister Kan:

ABAC concluded its first meeting in Melbourne, Australia on February 12, where submission of a letter to the International Monetary Fund (IMF) was endorsed. The letter seeks to respond to the IMF’s solicitation of comments on the potential usefulness and impact of various approaches to financial sector taxation in relation to the study requested by the G20.

We believe that imposition of a global tax is an inappropriate response and a further burden to industries, especially small and medium enterprises, and consumers in the wake of the global financial crisis. We also believe that the proposals under consideration would be harmful for a range of additional reasons, including the practical challenges of implementing any such tax. Further, we express additional specific concerns including the following:

- Key to the APEC agenda is reduction of transaction costs. The proposal is directly counterproductive to this goal.
- It would have a very significant negative impact on real economic recovery, as these additional costs are likely to further reduce financing of business activities at a time when markets remain fragile and prospects for the global economy are still uncertain.
- Industries and consumers as a whole would be unfairly penalized.
- It would further weaken financial markets and reduce the liquidity, particularly in the case of illiquid assets.
- Effective implementation would be virtually impossible, especially as opportunities for cross-border arbitrage arise from decisions of certain jurisdictions not to adopt the tax or to exempt particular activities.
- There is no global consensus why a tax is needed and what the revenue would be used for, and therefore no understanding how much is needed. Any consequential tax would need to be supported by clear consensus for its application.

We view the above considerations are important in ensuring our region’s financial stability and economic recovery. While we appreciate and support G20’s efforts and initiatives to strengthen the global financial systems, we hope that APEC Finance Ministers would encourage their counterparts in the other G20 economies to bear them in mind when they discuss the financial taxation issue, as well as bring these views to the attention of relevant regulators in their respective economies.

Yours sincerely,

Gempachiro Aihara
ABAC Chair 2010

Yoshihiro Watanabe
Chair, Finance & Economics Working Group