

CONSOB-Università Bocconi Conference
«The Development of Securities Markets»
Milan – February 27th 2015



UNIVERSITÀ
CATTOLICA
del Sacro Cuore

A discussion of “Financial Transaction Taxes, Liquidity and Long Term Investors”

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The Paper (I)

- The paper studies the effects of the introduction of the Financial Transaction Tax (FTT) in France
 - 20 bps tax on the purchase of French equities from August 1st, 2012
 - The tax applies to the changes in the daily net position (i.e., ownership transfers) → intraday trading exempted
- Difference-in-difference methodology
 - Treated stocks: 87 French stocks
 - Control stocks: 32 stocks registered in Luxemburg and the Netherlands with market cap above €1 billion
 - Sample period: from June 1st, 2012 to October 31st, 2012 (109 trading days)



The Paper (II)

➤ Dependent variables

- Trading volume
- Volatility
- Quoted, effective and realized bid-ask spreads
- Depth (level and speed of mean reversion)
- Price efficiency (absolute value of first-order autocorrelation in stock return)



The Paper (III)

➤ Findings

- Aggregate results
 - ✓ A 10% reduction in the trading volume
 - ✓ A moderate decline in market quality variables
- Important composition effects
 - ✓ A 17% reduction in institutional investors trading activity
 - ✓ A 20% drop in volume and a significant reduction in market quality (↑ spreads, ↑ price impact, ↑ volatility) for stocks not traded under a liquidity provision program called SLP (Supplemental Liquidity Provider)
 - ✓ Stocks traded under SLP (i.e., most active stocks) are not affected



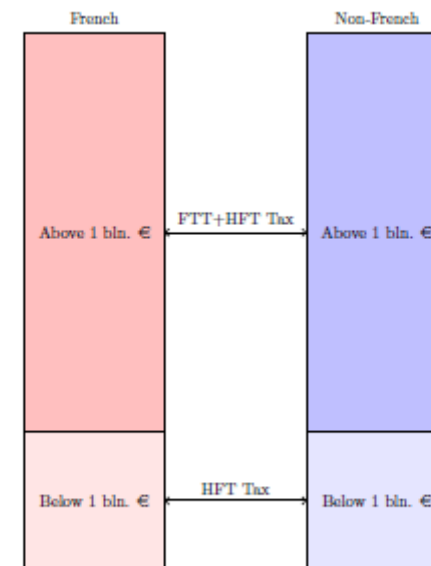
Comments: Paper contribution

- The paper deals with an important issue
 - What is the objective of an FTT?
 - To raise money? Sure
 - To discriminate across traders? Not sure
 - To discriminate across stocks? Not sure
 - This paper helps in understanding what unintended consequences may arise from FTT



Comments: Identification strategy (I)

- There are two taxes that are jointly introduced by the French government: an FTT tax and an HFT tax
- The identification strategy for estimating the impact of the FTT and the HFT taxes is based on two steps
 - HFT tax on stocks below €1 billion has no material impact
 - This allows the Author “to attribute any causal effect exclusively to the FTT”

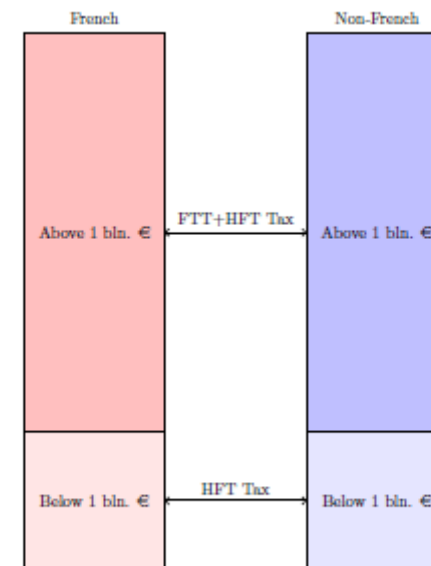




Comments: Identification strategy (II)

➤ How can we be sure that the HFT tax has not a material effect for stocks above €1 billion?

- Stocks are different, the effect may be different
- The results in the paper highlight that HFT is actually more important for most active stocks
- What is the amount of money raised by the HFT tax? Possibly partitioned by class of stocks (above vs. below €1 billion)





Comments: Control sample

32 stocks registered in
Luxembourg and the
Netherlands with mkt cap
above €1 billion

$$E(y_{i,t} | i, t) = \alpha + \gamma Treated_i + \delta Post_t + \beta Treated_i * Post_t$$

- Gamma accounts for matching error (i.e., difference between treated and control stocks in the pre-event period)
- Delta accounts for the impact of the FTT on control stocks (i.e., spill-over effects)
- Beta accounts for the impact of the FTT on the treated stocks
- Tables only show beta, why not the other coefficients?

		Period	
		Pre	Post
Stock	Treated	Alpha + Gamma	Alpha + Gamma + Delta + Beta
	Control	Alpha	Alpha + Delta



Minor Comments

- HFTs are assumed to be informed traders
 - You might consider exploiting your results in order to show that they are such
 - In fact the paper finds that market orders of HFTs have the highest price impact
- Your results also have a side effect in that they highlight a positive impact of the Supplemental Liquidity Provider Program
 - MiFID2 (paragraph 48(2)) also includes a provision for market making agreements
- Add a discussion of the differences between this paper and competing papers on the same topic



Conclusions

- The paper is rich of insights, well written and interesting
- I particularly appreciated the focus on the composition effects
 - The French FTT mostly affects long-term investors, in particular those with larger turnover, and stocks that do not have a designated liquidity provider
- The key issue in this area is still the waiver on intraday trading, which is somehow political choice and makes even more relevant the research on the impact of HFTs...