PRESS RELEASE

THE CNMV ANALYSES THE EFFECTS OF THE INTRODUCTION OF THE FINANCIAL TRANSACTION TAX IN THE SPANISH EQUITY MARKETS

7 March 2023

- It publishes an article assessing the effects on the liquidity, volatility and trading volume of the shares affected, using two analysis methodologies, in line with previous studies in other countries.
- The article concludes that the effects of the tax on the trading of Spanish shares has been perceptible, although limited in absolute terms and having a relatively short term impact.

The Spanish National Securities Market Commission (CNMV) published today an article that studies the effects of the introduction of the Financial Transaction Tax (FTT) in Spanish equity markets, without assessing other elements that pertain to the economic policy scope. To analyse this impact, the article employs a methodology similar to that used in studies conducted for other markets in which a similar tax has been introduced, thus trying to contribute to the analyses surrounding the application of said taxes.

The study, co-authored by the technical experts of the Research and Statistics Department of the CNMV, Ramiro Losada López and Albert Martínez Pastor, assesses the effect of the introduction of the FTT on Spanish shares in secondary markets, focussing on its possible costs or impacts. For this, several dimensions of liquidity (measured by means of the bid-ask spread and the Amihud ratio), volatility (both intraday and historical) and the trading volume of secondary markets in which Spanish shares are traded are analysed.

The study reveals that the negative effects of the tax on the trading of Spanish shares have been limited in absolute terms and have had a relatively short term impact. It can also be seen that the introduction of the tax might have led to a slight concentration of trading in regulated markets by displacing part of the OTC (Over-The-Counter) trading to MiFID secondary markets. Therefore, two opposing effects have been detected: on the one hand, the trading of Spanish shares subject to the tax fell after the tax was introduced and, at the same time but on the other hand, the organised markets recovered a small part of the trading of these shares that was previously OTC. Although the volatility increased in the short term, it did tend to fall in the long term.

The design of the tax could have reduced the incentives for some long-term investors to participate in the market, given that the tax base is calculated from the net acquisition of shares performed in the day. Meanwhile, it would seem the bid-ask spreads of companies with higher capitalisation were not affected,

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although the Ahimud ratio did increase slightly in absolute terms. In the case of shares of companies with a capitalisation closer to 1 billion, the results reveal that, after introducing the FTT, the bid-ask spreads and the Ahimud ratio would just increase in the short term (40-session window) but without any effect in the medium to long term.

Two methodologies are used in the study, **difference in differences** and **regression discontinuity**, to grasp two types of effect:

- The **first** method analyses the impact of introducing the tax, comparing the evolution of the variables subject to the tax in Spain with those of other countries, of similar characteristics, and not subject to the tax.

  The first study used data on the volume and prices of the shares of five countries: Spain, Germany, Holland, Portugal and Austria. The period covered by the data was from 10 February 2019 to 23 December 2021 and the securities with a capitalisation under €1 billion were excluded.

  The results of the difference in differences analyses reveal that the tax hardly had any effect on the bid-ask spreads. However, the level of share trading did fall and this, in turn, led to a slight deterioration in the liquidity dimensions, measured by means of the Amihud ratio, which increased slightly in absolute terms after the tax was introduced.

- The **second** method compares the development of the variables linked to the trading of shares of Spanish companies subject to the tax with those of companies that are not subject to this tax. The sample is restricted to the observations of Spanish securities that are located nearer the capitalisation threshold (close to €1 billion) and closer to the date on which the tax was introduced (bounded time series). This made it possible to confirm the effects it had on the observations closer to both thresholds.

  The results of these analyses suggest that the liquidity, measured through the bid-ask spreads, the Amihud ratio and the trading volume, was not generally affected for companies subject to the tax that were closer to the €1 billion capitalisation threshold. However, in some cases a deterioration in the liquidity was observed (increase in the bid-ask spreads and the Amihud ratio in the short term and a drop in the trading volume in the medium term).

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