ASSOCIATION FRANÇAISE DES MARCHÉS FINANCIERS

FINANCIAL TRANSACTION TAX

RISE IN THE TAX RATE IN 2025

Impact study

Summary

On 1 April 2025, the rate of the **financial transaction tax (FTT)**, which applies to purchases of shares in French companies with a capitalisation of more than €1bn, was increased from 0.3% to 0.4%. Against the backdrop of the ongoing parliamentary discussions concerning a change in the FTT, AMAFI wanted to objectively assess the **potential effects of this recent increase**.

This analysis, based on market data provided by Big xyt, **compares, before and after the increase, the change in several key market indicators**: volumes traded, the difference between the purchase price and the sale price (spreads) and the volatility of the prices of taxed and non-taxed securities, in France and in several European countries (Germany, Spain, Italy, United Kingdom).

This results in a threefold observation:

- **French equities subject to the FTT experienced much lower volume growth than in other countries, and even a fall once the rate was increased. Conversely, untaxed French equities followed the upward trend observed elsewhere**.
- **Spreads on taxed French equities widened slightly** when the rate increase was announced, **and then returned to levels comparable** to those of other markets.
- **Volatility remained comparable** across markets.

While this finding may not be attributed exclusively to the increase in the rate, the unfavourable change in volumes on taxed French equities confirms that **the FTT weighs heavy on the relative attractiveness of French securities, and on the competitiveness of the French companies affected, by increasing their cost of capital and therefore reducing their ability to obtain financing on the market.** This result cannot fail to leave an impression, as it is now widely recognised that the transitions that companies, including large companies, must carry out require considerable and long-term investments, involving strengthening their capital base.

The fact that spreads returned to normal and volatility was unaffected by the rise also highlight the **decisive role of activities exempted from market making and intra-day trading in maintaining the fluidity of trading and the smooth functioning of the French equity market**.

These findings are also consistent with those established by various studies conducted when the FTT was introduced (*see below*).

Since the creation of the Financial Transaction Tax (FTT) in 2012, AMAFI has striven to ensure that the financing of companies through equity capital provided by the markets is preserved. The Association has also supported the operational implementation of the tax in order to ensure that the conditions for its collection are as efficient as possible.

Since then, AMAFI has continuously monitored the system, in particular by ensuring that it is properly understood by all stakeholders through the publication of an annually updated reference guide, the monitoring of tax revenue, and an ongoing dialogue with the authorities.

While the current budget debates include measures to increase the tax contribution, the analysis of the effects of this increase on the volatility and liquidity (volume and spreads) of the securities concerned should help to shed light on the current discussions. Although some studies were carried out after the introduction of the tax (*see below I.B*), AMAFI wanted to examine these effects, as the rate was increased from 0.3% to 0.4% on 1 April 2025, based on market data provided by Big xyt.

The purpose of this study is therefore to determine whether the recent rate increase from 0.3% to 0.4% on 1 April 2025 may have had an impact on the liquidity, in terms of volume and quality, of the French securities affected.

I. REMINDERS

A. FINANCIAL TRANSACTION TAX - MAIN FEATURES

A financial transaction tax (FTT) was introduced by the law of 14 March 2012 (*2012 amending finance law*). Its provisions have been amended several times (notably by the finance laws for 2017, 2018, 2019 and 2025).

It now includes[1] two separate components: (i) a **tax on the acquisition of capital securitiesl[2]** and (ii) a **tax on high-frequency transactions[3]**, the former, commonly known as the FTT, contributing to almost all the amounts collected and which is the subject of this study.

Scope and exemptions

A transaction is subject to the FTT if it consists of **an acquisition for consideration** of an equity security, which gives rise to **a transfer of ownership** on the settlement date. The **equity securities subject** to the FTT are shares and instruments giving access to capital or certificates representing shares, issued by companies having their **registered office in France** and with **market capitalisation greater than €1bn at 1 December of the previous year[4]**. The security must also be **admitted to trading on a**

[1] The tax known as CDS (French General Tax Code, Art. 235 ter ZD ter) on certain credit default swaps was abolished on 1 January 2019.
[2] Tax on acquisitions of equity securities (*French General Tax Code, Art. 235 ter ZD*).
[3] Tax on high-frequency transactions (*French General Tax Code, Art. 235 ter ZD bis*.)
[4] The list of securities subject to the FTT is published each year by the tax authorities (*2025 link*).

regulated market (or recognised as such in Europe), while the acquisition may be carried out on any market and over-the-counter.

The FTT provides for several exemptions (9 in total) intended to avoid penalising activities that contribute to the smooth functioning of the markets. Thus, transactions carried out under a **liquidity** contract and **market-making** transactions are **expressly exempt**, whether they relate to the purchase and sale price quoted on the order book (which provides regular and continuous liquidity), the facilitation of client orders or the associated hedging transactions. These exemptions aim to preserve market liquidity and depth by ensuring that the tax does not impede the fluidity of trade or hinder the price formation process.

Tax base and change in the rate

The tax base corresponds to the **acquisition value** of the securities, excluding fees: it therefore applies to the **net long position** on the settlement date. Thus, purchases and sales are offset and the tax is calculated at the end of the day on the positive net balance of the securities acquired, excluding exemptions.

The rate applicable on introduction of the tax on 1 August 2012, initially set at 0.10%, was immediately increased to 0.2%, then increased to 0.3% on 1 January 2017.

The recent rise in the rate from 0.3% to 0.4% was **formally adopted on 15 February 2025**, to **commence on 1 April 2025**, the time between the two dates consisting of a transition period necessary in particular for the systems of Euroclear France, the entity in charge of collecting the tax, to be updated.

B. PREVIOUS STUDIES ON THE IMPACT OF THE FTT

Various studies have sought to establish the impact of the implementation of the FTT on the French equity market in question, such as the AMF study of 2014[5], that of L. Becchetti, M. Ferrari and U. Trenta, published in late 2014[6], and that of J.E. Colliard and P. Hoffmann published in 2017[7].

Although they use different methods, these studies come to similar conclusions regarding:

- a **marked deterioration in liquidity in terms of volume**, with an ongoing fall in trading volumes of around 10% for French securities subject to the tax,

- a **low to neutral impact on liquidity quality**, whether measured by the price differential between buyers and sellers (bid-offer spread), quantities within the best limits, price impact measures (Amihud[8]) or intra-day volatility, a result consistent with the positive and predominant role of market makers, whose activity is exempt from the tax.

[5] AMF, Risques et tendances N° 14 : Quels risques macrofinanciers pour 2014 ?, p. 47s.
[6] L. Becchetti, M. Ferrari, U. Trenta, Journal of Financial Stability, December 2014, The impact of the French Tobin tax.
[7] J.E. Colliard, P. Hoffmann, ECB Working Paper Series, Financial transaction taxes, market composition, and liquidity.
[8] The Amihud ratio (2002) assesses the impact of volume on price (in summary, the more a small volume of transactions causes a large price variation, the more illiquid the security is).

In addition, various theoretical and empirical studies9 conclude that an FTT has a negative effect on the cost of capital for companies due to the decline in investors' appetite for taxed equities, the drop in their valuation and, finally, the increase in investors' expectations regarding the performance of the companies affected.

II. METHODOLOGY USED

The increase in the tax rate occurred in a context that should be taken into account in this study:

- The rate increase was announced several weeks before it took effect, market participants being able to use the interim period to anticipate the increase and adapt their investment portfolios and strategies.
- Above all, the entry into force of the 0.40% rate almost coincided with the episode of very high volatility and intense market activity (as evidenced by the change in the Vix volatility index, see below) triggered by the announcement of an unprecedented rise in tariffs by the US administration.

The increase in the rate of the FTT occurred in a context of high volatility

This context makes it more important to approach the impact of the rate increase in relative terms, by comparing the French equities affected and the control samples comprised of equities not impacted by the tax.

[9] Refer to Fraichot, 2018, which provides a summary of these studies.

On this basis, the methodology implemented consisted in defining:

A. **Periods** of observations consistent with the various phases of the announcement of this increase,
B. **Portfolios** of stable securities allowing a comparison approach,
C. **Impact indicators**, both quantitative (traded volumes) and qualitative (measured by volatility and spread).

A. OBSERVATION PERIODS

Three observation periods were used[10]:

- **An initial period, rated P1, prior to the adoption of the increase in the FTT**, from 2 January to 14 February, the increase having been adopted on Saturday 15 February.

  This period serves as a **reference for an activity not influenced by a change in the FTT**, as parliamentary discussions have not yet begun on this subject on these dates. The date of 2 January was chosen in order to ensure the stability of the securities portfolio subject to the tax over all three observation periods (the list of securities submitted being revised at the end of the year).

- **A second period P2**, **between the adoption of the increase and its entry into force**, i.e. from Monday 17 February (which corresponds to the first trading day after the adoption of the increase) to 27 March (as the transactions of 27 March were completed on 31 March, this corresponds to the last day of execution before the actual increase of the FTT on 1 April).

  This period aims to identify **any anticipation** of the tax increase by market stakeholders.

- **A third period P3, after the entry into force of the increase**, from 28 March (transactions executed on this date being completed on 1 April) to 8 October, the date on which it was decided to stop collecting data subsequent to the entry into force for the purposes of the study.

  This period makes it possible to **study the potential effects of the entry into force** of the new tax rate.

B. SECURITIES PORTFOLIOS BY COUNTRY

In order to measure the impact of the increase in the tax by comparing the French situation with changes observed on other markets, by distinguishing between securities according to their market capitalisation, following the example of the segmentation used in France to determine FTT liability, two portfolios were created for each country, called Tier 1 and Tier 2 respectively.

[10] The periods are given as the execution date, i.e. 2 business days before completion of the transfers of ownership, the factor that triggers calculation of the tax.

- **Tier 1 portfolios** include securities with a **market capitalisation of more than €1bn** (i.e. the threshold of applicability of the FTT in France), for France and several countries with (Spain - ES, Italy - IT and United Kingdom - GB) or without (Germany - DE) an FTT.

- **Tier 2 portfolios** include **securities with a market capitalisation of between €200m and €1bn** (the lower limit of €200m was set to exclude small and mid caps, whose behaviour is sometimes random) for these same countries, excluding Italy, as this country applies an FTT for capitalisations of more than €500m, its Tier 2 portfolio would not have been homogeneous with the Tier 2 portfolios of other countries[11].

For each portfolio-country pair, securities meeting the listed market capitalisation criteria were selected, based on a capitalisation assessment at 2 December 2024, in accordance with the method adopted in France to draw up the list of securities subject to the FTT.

Number of securities per portfolio

Country	Portfolio	Number of securities
Germany	Tier 1	115
	Tier 2	83
Spain	Tier 1	58
	Tier 2	24
France	Tier 1	118
	Tier 2	92
Great Britain	Tier 1	242
	Tier 2	285
Italy	Tier 1	65
Total		**1,082**

Furthermore, securities that have been subject to a transaction (IPO, delisting, merger, etc.) that may have had an impact on prices during the observation periods were excluded, so as not to distort the time series: the portfolios are **constant in their composition, for each country and for each of the three observation periods.**

[11] The Spanish tax applies to companies with a capitalisation of more than €1bn, as in France, and the British UK stamp applies to all equities, allowing homogeneity of the portfolio to be maintained.

C. IMPACT INDICATORS

For each **Period**-**Tier**-**Country** triplet, the following indicators are calculated[12].

- **Liquidity**: average daily volumes traded on all execution platforms for the securities in each portfolio and for each period,

- **Spread**: the spread is the difference between the purchase price and the sale price of a security. A spread (expressed in basis points compared to the average price) is recorded per time interval for each platform where the security is traded and on each security in the portfolio. A daily average weighted by the volumes executed on each platform and each security is then calculated.

- **Volatility**: average of the daily volatilities of the securities in each portfolio, for each period. Daily volatility is the daily average of volatility measurements observed (and not executed) every minute on the principal market[13] of each portfolio security.

No sectoral adjustment (the aim of which would have been to smooth the differences in the sectoral composition between the portfolios, as the sectors did not necessarily behave homogenously over the periods), or adjustment to the free float of the portfolio values (we generally observe a correlation between the free float and liquidity) were carried out: the portfolio securities are equally weighted for calculating the indicators.

III. RESULTS OBSERVED

The impact indicators, liquidity (A.), spread (B.) and volatility (C.), were calculated by market and by period for the Tier 1 and 2 portfolios. The results of periods 2 and 3 are normalised by the average of period 1.

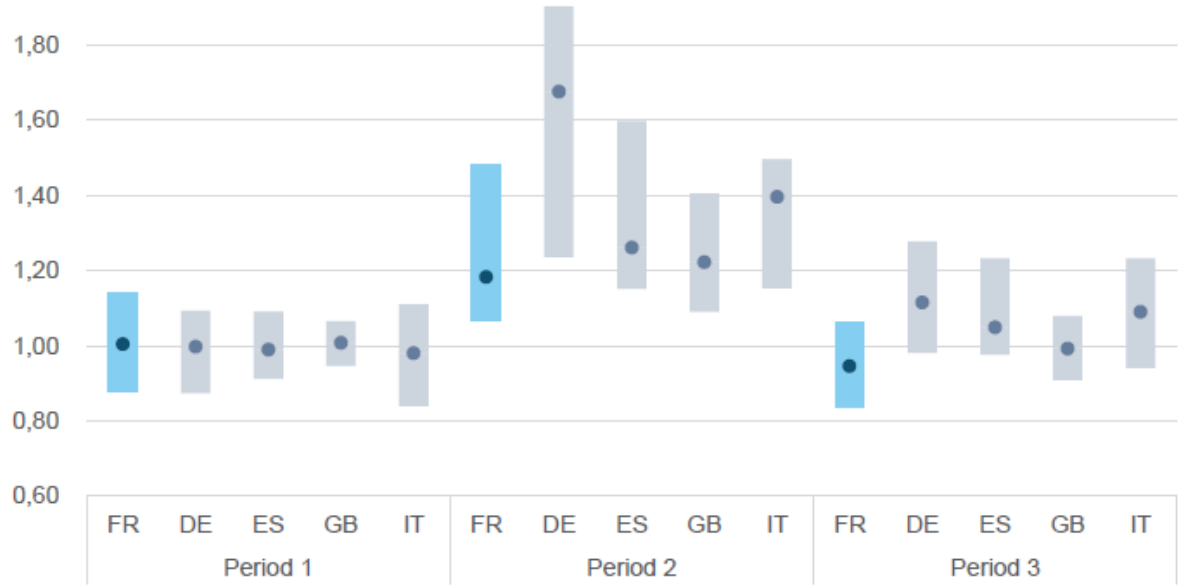
For each market and period, the median and the interquartile range are calculated. The interquartile range is a measure of dispersion that is obtained by finding the difference between the third and the first quartile of a dataset. More simply, it quantifies the dispersion of the median 50%, eliminating 25% of the highest data and 25% of the lowest, thereby minimising the influence of extreme values.

[12] A definition of the indicators is given in the appendix.
[13] It is on the principal market that price formation is considered the most reliable, due to the volumes and depth of the market it presents. Considering alternative execution platforms with low liquidity is likely to distort the measurements with data that does not always reflect the actual momentum of the security.

A. LIQUIDITY

Tier 1 portfolios (securities with a market capitalisation of more than €1bn): for **French securities subject to the FTT**, there was a slightly lower increase in liquidity than that observed in other countries, in period 2, and even a decrease in period 3, whereas, over this period, liquidity remained at higher levels than in period 1 for the other reference countries.

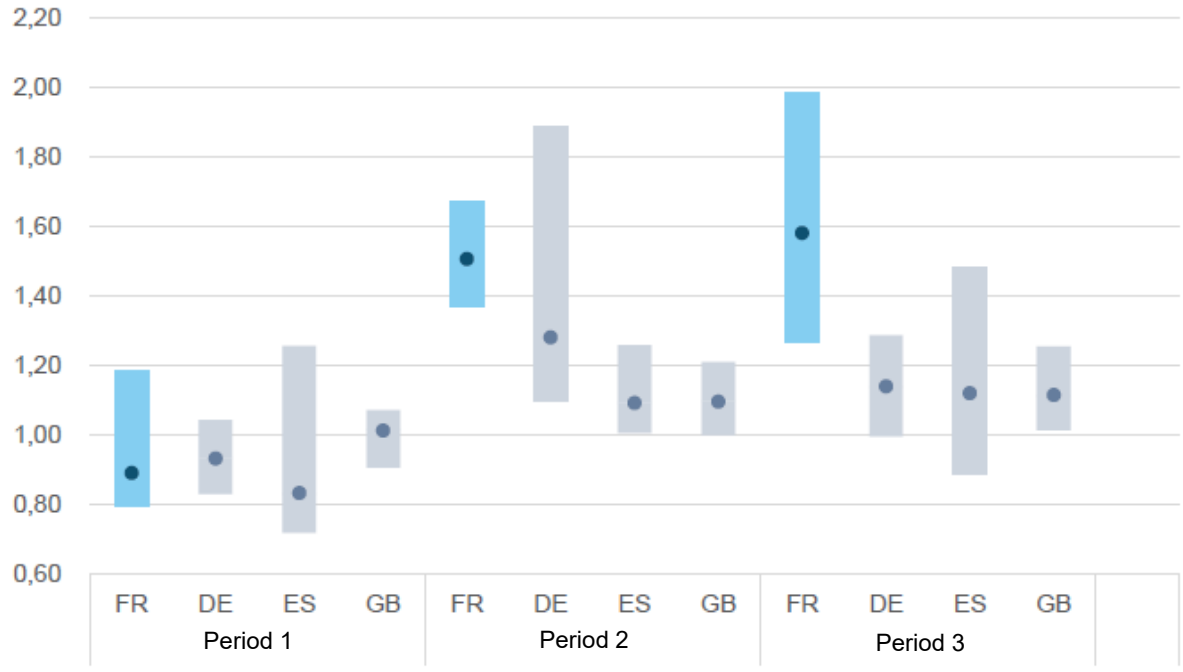
Volume of activity by market and by period for Tier 1 portfolios, normalised by the average for period 1: median and interquartile range



Tier 2 portfolios (whose securities have a market capitalisation of between €200m and €1bn): there is an increase in liquidity for **French securities not subject to the FTT** that is much greater than those of other European countries in period 2, an increase that is maintained in period 3, a period when there is a smaller increase in all other European countries.

Note the specific situation of Germany in period 2, corresponding to the wave of purchases of German securities that followed the announcement, on 4 March, by Chancellor Merz, of a massive investment plan marked by the lifting of the debt limit for defence projects and the creation of a €500bn fund for investment in infrastructure projects.

Volume of activity by market and by period for Tier 2 portfolios, normalised by the average for period 1: median and interquartile range

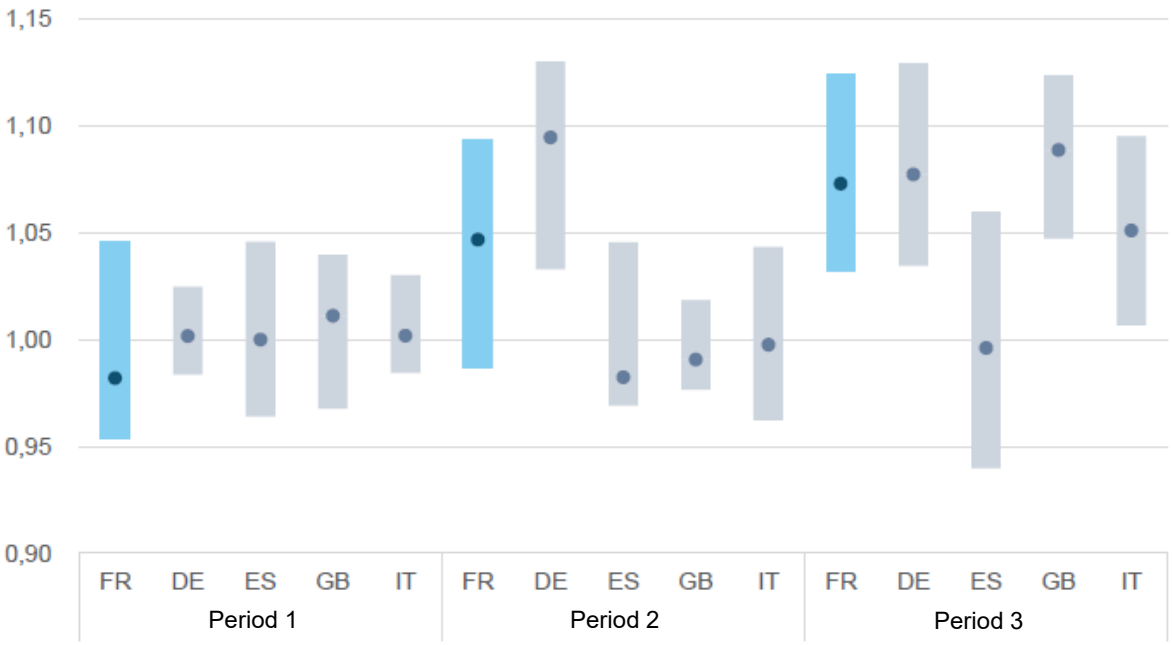


B. SPREADS

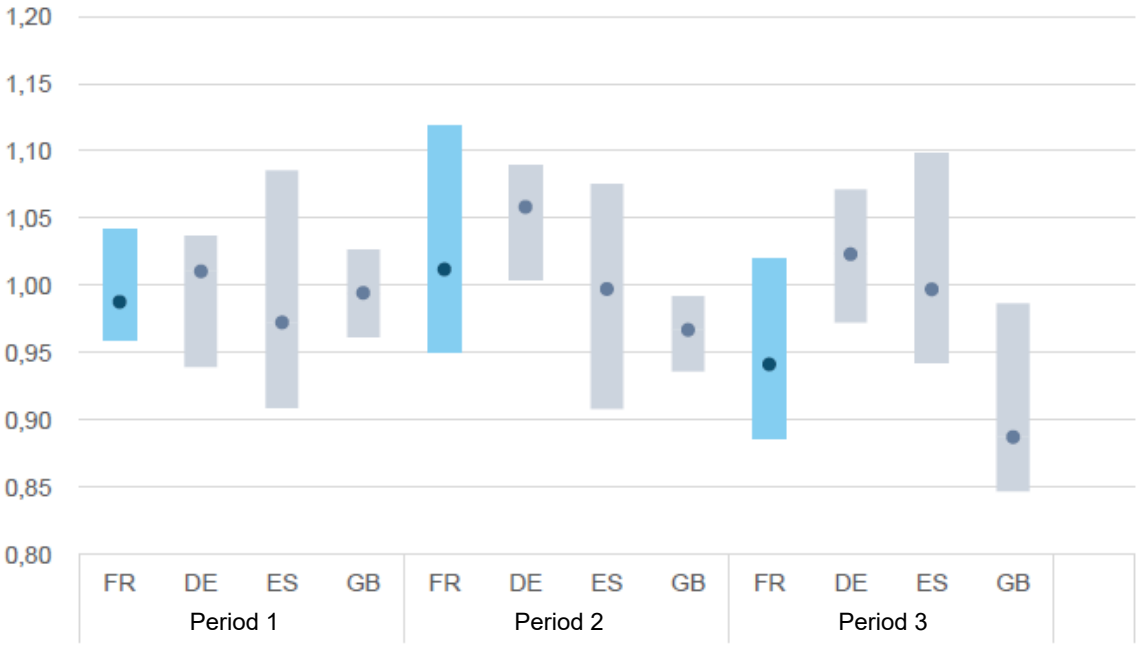
Tier 1 portfolios: we note a more pronounced widening in period 2 in spreads for France compared to other countries (with the exception of Germany, which also stands out due to its sharp increases). This difference then fades out in period 3, where spreads for France return to levels similar to those observed in other countries.

Tier 2 portfolios: with the exception of the United Kingdom, which saw a significant drop over the two periods, we note homogenous levels of spread between France and the other countries in period 2. The spread narrowed for France in period 3 to levels lower than that observed in period 1, while it remained stable in the other countries.

Average spread by market and by period for Tier 1 portfolios, normalised by the average for period 1: median and interquartile range



Average spread by market and by period for Tier 2 portfolios, normalised by the average for period 1: median and interquartile range



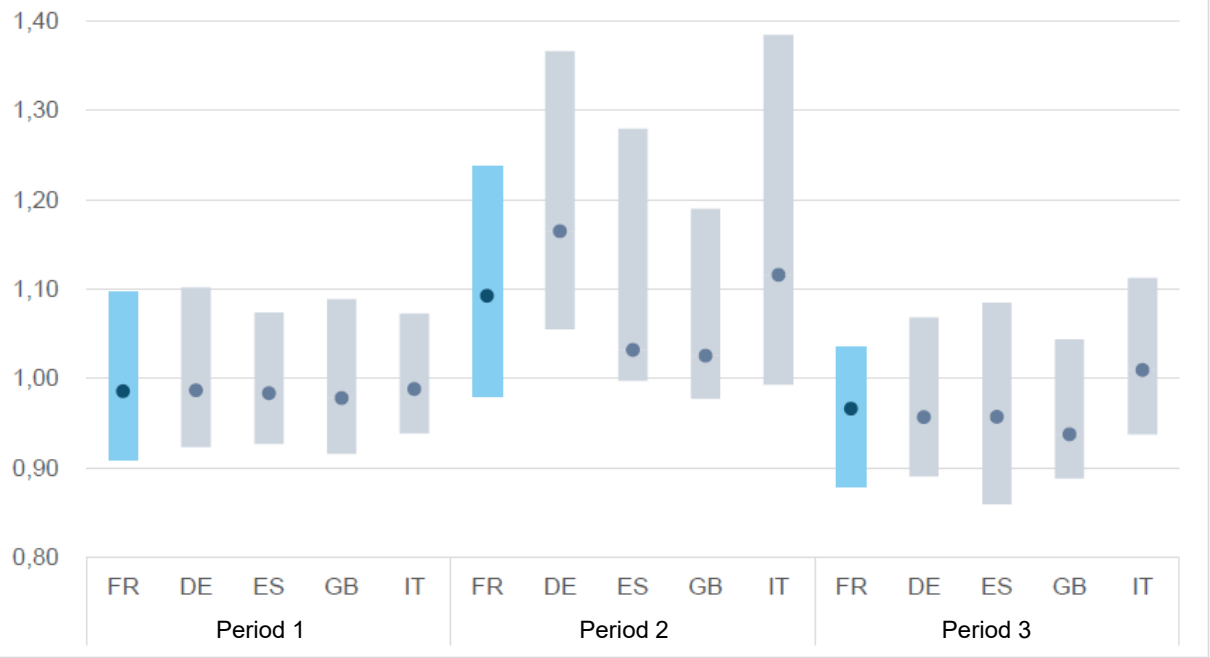
C. VOLATILITY

Tier 1 portfolios: a **general increase in volatility,** in France as in the other countries in period 2 is observed. Volatility then decreases in period 3 to levels lower than those observed in period 1, with France remaining in a trend consistent with **that observed for the other countries**.

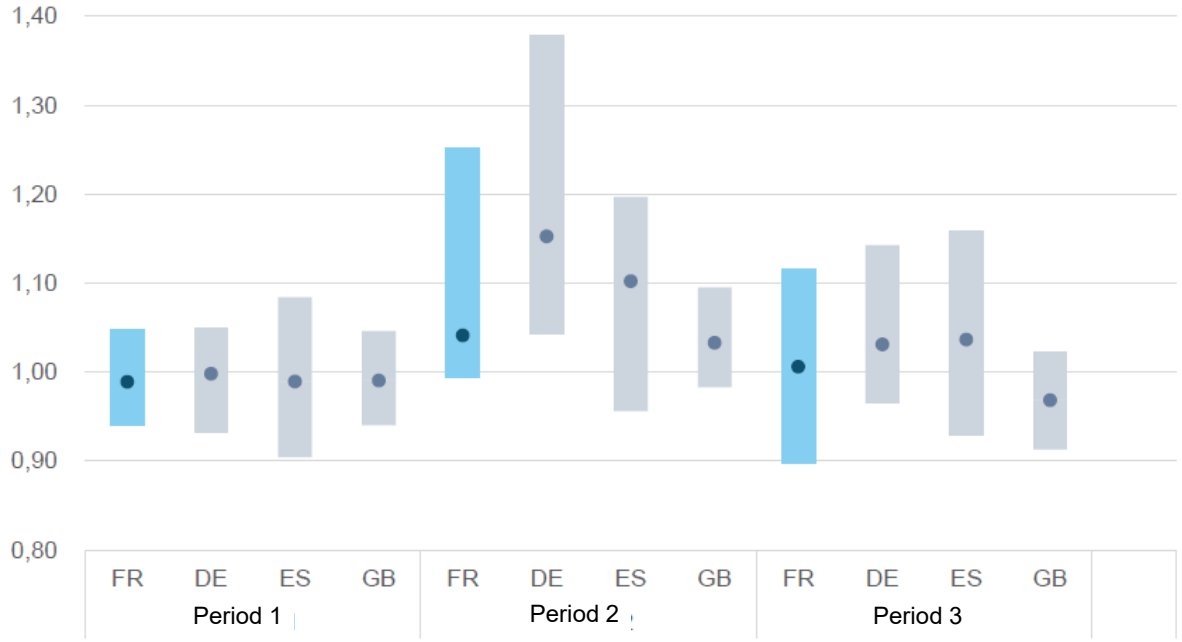
Tier 2 portfolios: the same trend is observed.

It should be noted that Germany stands out with figures above the other countries in period 2 (which can be attributed to the adoption of a massive investment plan on 18 March 2025).

Intra-day volatility by market and by period for Tier 1 portfolios, normalised by the average for period 1: median and interquartile range



Intra-day volatility by market and by period for Tier 2 portfolios, normalised by the average for period 1: median and interquartile range



IV. CONCLUSIONS

The data shows a **strong overall increase in liquidity measured in volume over the entire period observed** (although this increase is smaller from 28 March), possibly caused by changes in US customs policy[14]. However, this increase is **less pronounced in France for securities subject to the FTT**, to the extent that there is a drop after the rate increase, a trend not observed for French securities not subject to the FTT, which benefit from the general increase in liquidity.

This lesser increase in the volumes traded of French securities subject to the tax does not result in a deterioration in volatility or a change in spreads at the end of the period that would be specific to France, as the widening of spreads remains homogeneous across all countries. This outcome may seem counter-intuitive, as these two notions, which express the quality of liquidity, are generally correlated to trading volumes. It appears in fact in line with the findings of the studies already carried out at the time the tax was introduced (*see above*) and **confirms the importance of intra-day activities and market-making activities, and keeping them exempt from the FTT, in maintaining the quality of the market**.

However, we note a **more pronounced** widening of spreads **in France than in other countries (excluding Germany)** for French securities subject to the FTT **when the increase was announced, before returning to levels in line with other European countries. This widening does not apply to**

[14] The official announcement of which was made on 3 April 2025.

French securities not subject to the FTT, with spreads narrowing **when the increase came into effect**, more clearly **than in other countries.**

In summary, we observe after the official announcement of the increase in the FTT rate, as well as when it came into force:

- **A relative decrease in the volume of transactions on French securities subject to the FTT, of around 10%.**
- **A more pronounced deterioration of spreads in France, on the announcement of the rate increase for French securities subject to the FTT, before returning to values similar to those observed in other countries.**
- **A change in volatility similar to that observed in other countries.**

While it is not possible to conclude that these findings are exclusively the result of the tax increase, as there are many factors that may influence the markets and this study does not isolate the only potential effects of the increase in the FTT rate, it is very likely that the increase in the French tax rate has, as when it was implemented, contributed to deteriorating the relative attractiveness for investors of the French securities affected, and therefore their liquidity. However, the exemptions for intra-day and market making activities have helped to preserve the quality of the market.

APPENDICES

DEFINITION OF INDICATORS USED

Liquidity

Liquidity refers to the ability of an asset to be bought or sold quickly, in large quantities, and without significant impact on its price.

A market is said to be liquid when there is a high volume of orders to buy and sell, allowing investors to carry out their transactions easily and at low costs.

Liquidity depends in particular on the number of participants, the depth of the order book and the frequency of trading.

Spread

The **spread** is the difference between the **purchase price (bid)** and the **sale price (ask)** of a security on the market.

It represents the **immediate transaction cost** and a measure of **liquidity**: the lower the spread, the more liquid the market.

A wide spread may reflect reduced liquidity, increased volatility or an imbalance between supply and demand.

Volatility

Volatility measures the extent of changes in the price of an asset over a given period.

High volatility reflects large and frequent price fluctuations, while low volatility indicates a more stable trend.

It is often used as an indicator of **market risk**, as it reflects investors' uncertainty about the future value of an asset.

"DIFFERENCE-IN-DIFFERENCES" STATISTICAL ANALYSIS

The **Difference-in-Differences (DiD)** approach isolates the specific effect of the increase in the FTT by neutralising factors common to all markets (global trends, macroeconomic shocks). It compares the performance of French securities subject to the tax before and after the reform to that of similar European securities that are not affected.

I. METHODOLOGY USED

The analysis is based on an econometric **Difference-in-Differences (DiD)** approach applied to French and European large caps. In concrete terms, we compared the change between the period **P1 (January-February 2025)**, before the reform, and the period **P3 (April-October 2025)**, after the entry into force of the new rate, excluding P2 to avoid bias linked to US trade tensions. The results for period 3 are normalised by the average for period 1.

This comparison focuses on three key indicators: **liquidity**[15], **intra-day volatility** and **spread at the best price.** The analysis is carried out for the Tier 1 portfolios of French securities and German, Spanish, Italian and UK securities, the latter constituting the control group.

Formally, the formula is written:

$$Yi_t = \alpha + \delta Post_t + \gamma Treatedi + \beta(Post_t \times Treatedi) + \varepsilon it$$

Y_{it} = indicator *(ADVT, spread,* volatility)
$Treated_i$ = treatment indicator

$Post_t$ = period after the increase
β = estimated causal effect

[15] ADVT or *average daily trading volume*

II. LIQUIDITY

The increase in the FTT in April 2025 resulted in a decrease in transaction volumes for French securities subject to the tax, unlike other European large caps, which recorded an increase in transaction volumes compared to the reference period.

Table 1: FTT and liquidity, data normalised by the average for period 1, Difference-in-Differences results

Model - After vs Before	**FR Tier 1 vs EU Tier 1**
Avg Daily Volume Traded	
FTT impact	**-0.1320 ***
Standard error	(0.07)
Probability	0.07

*, **, *** indicate a coefficient statistically different from zero at the 10%, 5% and 1% thresholds respectively

The econometric estimate indicates a decrease of approximately **13% in the average daily volume**. This result is **statistically significant** (p ≈ 0.07), which suggests a negative impact of the rate increase on the liquidity of French securities.

III. VOLATILITY & SPREADS

Conversely, the increase in the FTT in April 2025 had no significant impact on market quality. For the **spread**, the estimated coefficient (0.0254) is very low and not significant (p = 0.19), indicating that the immediate cost of transactions remained stable after the reform.

Regarding **intra-day volatility**, the coefficient (–0.0227) is also close to zero and not significant (p = 0.82), which shows that price stability has not been affected.

Table 2: FTT and transaction costs, Difference-in-Differences results on At-Touch VWAS and intra-day volatility

Model - After vs Before	**FR Tier 1 vs EU Tier 1**
At Touch VWAS (bps)	
FTT impact	**0.0254**
Standard error	(0.02)
Probability (p < 0.05)	0.19
Avg. Intra-day Volatility	
FTT impact	**-0.0227**
Standard error	(0.09)
Probability (p < 0.05)	0.82

*, **, *** indicate a coefficient statistically different from zero at the 10%, 5% and 1% thresholds respectively.

In summary, contrary to the drop in volumes observed previously, the increase in the FTT did not change the quality of the market, either in terms of spread or volatility.

IV. CONCLUSION

Econometric data confirms that the increase in the FTT rate in April 2025 had a negative impact on the liquidity of French large caps subject to the tax.

However, this contraction in volumes was not accompanied by a deterioration in market quality: neither spreads nor intra-day volatility changed significantly after the reform (coefficients close to zero).

This result confirms the decisive role of **exempt activities (market making, intra-day arbitrage)** in maintaining the fluidity and stability of trading.

In summary, after the entry into force of the increase in the FTT rate:

- **A relative decrease in the volume of transactions on French securities subject to the FTT, of around 13%, which is statistically significant.**
- **No significant impact on spreads or volatility, confirming the preservation of market quality through exemptions.**