



# VCCT - Voluntary Contribution on Currency Transactions

## Frequently Asked Questions

- The VCCT in brief ..... 2
- What is the Voluntary Contribution on Currency Transactions (VCCT)? ..... 2
- Who will benefit the VCCT?..... 2
- In the end, who will really pay the VCCT: the bank or the client?..... 2
- Why does CREDIT COOPERATIF take such an initiative?..... 2
- Did CREDIT COOPERATIF apply comparable mechanisms to other financial or bank services and products? .... 2
- Mechanism and principles of the VCCT ..... 4**
- What is a currency transaction? ..... 4
- What is the VCCT applicable rate? ..... 4
- Why this rate?..... 4
- What is the base\* for collection of the VCCT?..... 4
- What are the operations not included in the VCCT mechanism? ..... 5
- Why this rate?..... 5
- How much will pay the CREDIT COOPERATIF for a full year under the VCCT?..... 5
- Will CREDIT COOPERATIF remain competitive after the introduction of the VCCT?..... 6
- Have other banks adopted the VCCT?..... 6
- Are there any other banks interested in the implementation of such a thing? Is CREDIT COOPERATIF in contact with them? ..... 6
- The links between the VCCT and innovative financing..... 7**
- What is the position of the CREDIT COOPERATIF on the project of Financial Transaction Tax? ..... 7
- Is the VCCT similar with the Tobin Tax? ..... 7
- How much money could be collected each year if the VCCT was adopted by every bank around the world?..... 7
- If a Currency Transaction Tax (CTT) or a Financial Transactions Tax (FTT) was to be established in France, what will become the CREDIT COOPERATIF VCCT? ..... 7
- What is the difference between a tax on Currency Transaction Tax (CTT) and a Financial Transactions Tax (FTT)? ..... 7
- If the VCCT was to be widespread, would it decrease the volume traded on the foreign exchange market? ..... 8
- If the VCCT was to be widespread, would it reduce liquidity on the foreign exchange market?..... 8
- Further information ..... 9**
- Where can I find information on the Innovative Financing for Development?..... 9
- Useful links .....9

## The VCCT in brief

### What is the Voluntary Contribution on Currency Transactions (VCCT)?

CREDIT COOPERATIF has created the concept of a voluntary contribution on currency transactions. It is based on studies and reports released by the [Leading Group on Innovative Financing for Development](#). The objective is to ensure long term stable funding for actions in developing countries.

As from March 1<sup>st</sup>, 2011, CREDIT COOPERATIF will allocate 0.01% of total interbank foreign exchange transactions processed towards a beneficiary, recognized as a serious actor for international cooperation for development.

### Who will benefit the VCCT?

At the end of the year 2011, CREDIT COOPERATIF will allocate the product of this contribution to an actor for international cooperation for development.

For more information:

The aim of the CREDIT COOPERATIF contribution is to take part, at its scale, in the funding of the [Millennium Development Goals](#). This historic commitment was taken by the Heads of States of 189 countries at the United Nations Millennium Summit in 2000. The eight objectives translate into targets and quantitative indicators.

For more information, please see: [www.un.org/fr/millenniumgoals](http://www.un.org/fr/millenniumgoals).

### In the end, who will really pay the VCCT: the bank or the client?

CREDIT COOPERATIF shall bear the cost of the VCCT. CREDIT COOPERATIF will calculate the whole sum of transactions processed during the year. It will apply the rate of 0.01%. The result will be deducted of the global results of financial activities, so that CREDIT COOPERATIF is fully impacted.

This way, the calculated amount of VCCT will impact the overall result of CREDIT COOPERATIF.

Given that the Foreign Exchange market is a very competitive market, it is worth pointing out that CREDIT COOPERATIF is not in a position to impact prices and rates for clients.

### Why does CREDIT COOPERATIF take such an initiative?

Several reasons have led CREDIT COOPERATIF to design and to implement this new project.

- CREDIT COOPERATIF is committed to innovate on a regular basis in the area of responsible financial services linked with solidarity mechanisms. This initiative corresponds to the expectations of its members and its customers.
- In addition to public aid for development, it is necessary to find innovative contributions that ensure long term and stable funding for cooperation and development.
- Many actors from civil society and many prominent economists support the implementation of innovative financing mechanisms.

According to its weight and its scale, CREDIT COOPERATIF seeks to contribute to major challenges that contemporary societies have to face. Meanwhile, CREDIT COOPERATIF wants to show that such innovative mechanisms are possible, confirming its vocation as a responsible banking actor caring for sustainable and fair development, co-operative principles and humanist values.

### Did CREDIT COOPERATIF apply comparable mechanisms to other financial or bank services and products?

CREDIT COOPERATIF is a pioneer for financial solidarity. It has gradually built a wide range of products, sharing the benefits. These initiatives have enabled CREDIT COOPERATIF and its customers who wish to help actively, actors in the field of cooperation, social and environment by contributing to their funding.

For more information:

Below are two examples of previous voluntary commitments of CREDIT COOPERATIF in innovative financing.

- 2002: the Carte Agir, a credit card for which the CREDIT COOPERATIF agrees to pay 3 euros when it is chosen by a client and 6 cents for each withdrawal. Since 2010, the donation made by CREDIT COOPERATIF can be enhanced by donation of clients. Clients can choose to give a minimum of 5 cents or more for each withdrawal.

Beneficiaries: 10 [partner organizations](#) of CREDIT COOPERATIF.

- This initiative has been mentioned in the Landau report on innovative financing in 2003.
- 2010, CREDIT COOPERATIF created the concept of 'Quote-part solidaire\*', ie. a bond issue for which 0.02% of the amount was given to a well-known NGO.

Beneficiary: [CCFD-Terre Solidaire](#). This historic partner of the bank was naturally chosen as the beneficiary of this innovation.

This operation is very similar to the VCCT and paved the way for innovative financing mechanisms of larger scale.

\*CREDIT COOPERATIF dealt with legal obligations to introduce it in a classic bond issuance in May 2010.

Customers can also choose how to make their money work through different services. Here are two instances:

- 1983: creation with CCFD-Terre Solidaire of the first solidarity fund in France: [Hunger and Development](#). It annually provides funds for [International Solidarity for Development and Investment \(SIDI\)](#)
- 2006 : creation of "[Livret Agir](#)" saving account . 50% of annual interest benefit to a partner organization chosen by the client. This Livret Agir received the FINANSOL label, a French certification of seriousness, transparency and solidarity. In 2010, thanks to responsible savers, more than 1.7 million euro of donations were made available for these partner organizations to enable them to conduct their activities in the areas of housing, the fight against unemployment, protection of environment, etc...

For more information, please consult [the press releases](#) or visit our [website](#).

# Mechanism and principles of the VCCT

## What is a currency transaction?

A currency transaction is a financial operation performed on the currency market, also known as Foreign exchange market, to convert one currency to another currency.

### For more information:

The exchange rate fluctuates according to offer and demand for each currency market. Banks and institutional investors are major players in the foreign exchange market. They can take action either on behalf of their clients, or for their own account.

The foreign exchange market is a financial market where the equivalent of nearly 4,000 billion USD are traded daily (source BIS, April 2010). It is a world market which includes operations conducted on organized exchanges and transactions performed over-the-counter between two counterparts. These transactions are generally not listed nor traded on any stock exchanges.

## What is the VCCT applicable rate?

The VCCT rate is 0.01% applicable to any interbank foreign exchange transactions performed by CREDIT COOPERATIF.

### For more information:

CREDIT COOPERATIF referred to the main reports on innovative financing to establish its own mechanism, including those dealing with various projects of financial taxes. Most studies recommend a rate of 0.005%. This rate would apply to each of both currencies (bought currency and sold currency). This is equivalent of an effective rate of 0.01% for each transaction. As such, CREDIT COOPERATIF selected the rate of 0.01%.

At a global scale, this rate wouldn't impair liquidity seriously and it would be still able to raise significant amount of money for development.

## Why this rate?

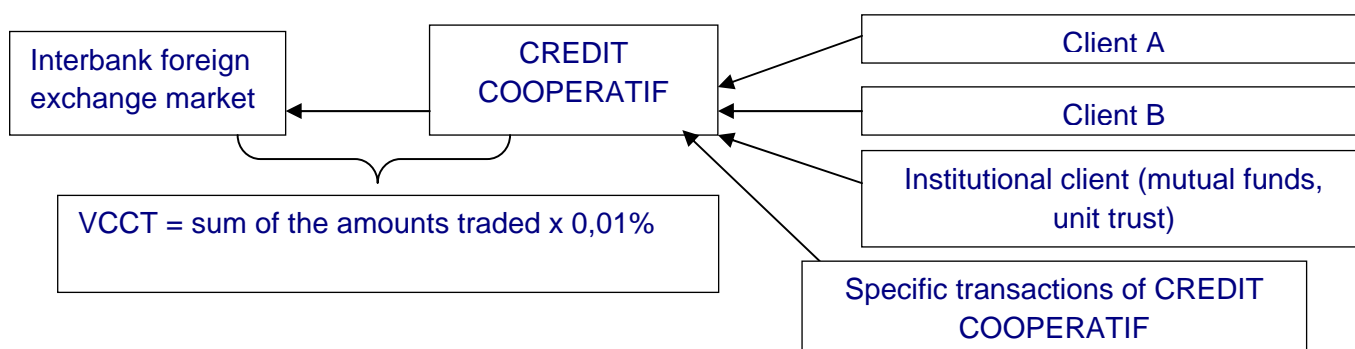
CREDIT COOPERATIF wanted to implement the findings of studies conducted by the committee of experts of the taskforce on innovative financing for development both for the rate and for the base of contribution.

### For more information:

The purpose of such a contribution is to find substantial, long term and stable funds for development. Having in mind that a too important rate would affect market liquidity and market volume, experts agreed on a balanced rate for collection which target two goals. Innovative financing such as VCCT must raise money without disrupting the overall balance of the market.

## What is the base\* for collection of the VCCT?

The calculation of the VCCT is the sum of traded amounts during one civil year on the interbank foreign exchange market for preventing currency risk for clients' business (1), preventing risk for own account transactions (2), spot (3) and outright (4).



#### For more information :

- (1) Hedging operation to prevent from currency risk: Currency risk is the risk that foreign exchange rates and/or the implied volatility will change, which affects, for example, the value of a business operation in one specific currency. Being importers and/or exporters, some of our clients are led to buy or sell currencies. They ask us to sell or purchase on their behalf foreign currencies on the market to prevent this currency risk.
- (2) Own account transactions: CREDIT COOPERATIF may have to buy foreign currencies on the market in order to bring capital to a microfinance institution abroad.
- (3) Spot transaction: Two partners exchange two currencies at a traded price, 2 days after the trade date.
- (4) Outright transaction: The price and the condition can be set in advance for a transaction that will be performed at a later date. Outright transactions are performed to cover someone against the risk of a too strong evolution of a currency's price.

\* This term refers to all operations that must be submitted to the VCCT.

### **What are the operations not included in the VCCT mechanism?**

- In accordance with the recommendations of expert reports, swaps and currency options \* are not included in the base of the VCCT.
- If CREDIT COOPERATIF is an intermediary between two banks in order to facilitate access to the foreign exchange market for a smaller bank, currency transactions will not be included in the VCCT as the principle of VCCT is to apply to the bank which take action as the principal.
- When CREDIT COOPERATIF buys or sells foreign currency to one client outside the interbank foreign exchange market, these transactions are not included in the VCCT because they do not lead to any order on the market.

\*An option is a derivative product that establishes a contract between a buyer and a seller. The buyer obtains the right, but not the obligation, to buy or sell an underlying asset at a predetermined price during a given time or a set date.

### **Why this rate?**

CREDIT COOPERATIF wanted to align on the findings of studies conducted by the expert group on innovative financing for development both on the level of the rate and on the basis of calculation.

#### For more information

Several reasons led to this specific rate:

- An effective way to obtain significant incomes is to choose a large base for contribution.
- In addition to representing a very large volume of transactions, foreign exchange transactions allow the pooling of efforts since they involve multiple countries.
- Exchange markets have greatly benefited from the positive effects of globalization. So it may seem fair that they contribute to achieving the Millennium Development Goals that give a real positive meaning to globalization.

### **How much will pay the CREDIT COOPERATIF for a full year under the VCCT?**

The amount paid by the CREDIT COOPERATIF under the VCCT is based on the volume of currency transactions performed. For 2011, as in full-year equivalent, CREDIT COOPERATIF believes that an amount of EUR 100 000 can be reached.

If the amount seems small, it is worth considering the relative size of a bank like CREDIT COOPERATIF and a relative volume of actions on financial markets.

**Will CREDIT COOPERATIF remain competitive after the introduction of the VCCT?**

CREDIT COOPERATIF will not change its methods of quotations for operations linked to currency transactions. The amount raised with the VCCT will be deducted from global results of its financial activities. In addition, CREDIT COOPERATIF is quite limited to modulate its commercial rates in function of VCCT given foreign exchange market is very competitive market and it will remain competitive to be able keep doing business with its clients.

**Have other banks adopted the VCCT?**

So far, and according to what we know, no bank has ever established a similar mechanism either in Europe or anywhere else in the world. CREDIT COOPERATIF is the first bank to implement such a mechanism.

**Are there any other banks interested in the implementation of such a thing? Is CREDIT COOPERATIF in contact with them?**

If any other bank is interested in VCCT or any similar mechanism, CREDIT COOPERATIF would support the idea to gather to establish a common methodology in order to pool the funds raised this way and discuss which organizations could benefit this fund in order to achieve the Millennium Targets for Development. This group of voluntary banks would show how financial institution can take part to innovative financing.

## **The links between the VCCT and innovative financing**

### **What is the position of the CREDIT COOPERATIF on the project of Financial Transaction Tax?**

As a bank, CREDIT COOPERATIF believes it has no legitimacy to express any position on a tax plan. It is a decision taken by public authorities. However, CREDIT COOPERATIF expressed its strong support for the Millennium Development Goals that innovative financing mechanisms should help to achieve.

### **Is the VCCT similar with the Tobin Tax?**

No, it is not. VCCT and all reports on innovative financing produced by experts are inspired from James Tobin's work. In 1972, he was the first to imagine a tax on international currency transactions to limit speculation. His proposals were never adopted. Today, the context and the way financial markets function are tremendously different from 30 years ago. That is why VCCT is substantially different from the Tobin tax by several aspects: its purpose, its nature, its rate and its base of operations included in the contribution.

#### For more information:

First, the VCCT is a single voluntary act and not a global tax. Then its target is to help finance cooperation for development in poorer countries. It embodies the idea that globalization of the economy should be matched with the globalization of solidarity. It makes a link between capacity building for development and foreign exchange transactions.

The Nobel economist, James Tobin, proposed a rate between 0.1% and 1%, but applied to a transaction volume far smaller than today. In its last report, the Bank for International Settlements announced that the foreign exchange market reached USD 4,000 billion traded per day in 2010. This market used to reach about \$150 billion per day in the 80s.

### **How much money could be collected each year if the VCCT was adopted by every bank around the world?**

According to reports from the Committee of Experts to the Taskforce on International Financial Transactions and Development, a levy of 0.01% on foreign exchange transactions including the four major currencies (£,\$,€,¥) would collect USD 33.41 billion per year. Other mechanisms are proposed in their different reports.

### **If a Currency Transaction Tax (CTT) or a Financial Transactions Tax (FTT) was to be established in France, what will become the CREDIT COOPERATIF VCCT?**

The tax would replace the voluntary contribution. Assuming that a tax would be adopted by several states including France, either on currency transactions or more broadly on financial transactions, the VCCT would be suspended.

### **What is the difference between a tax on Currency Transaction Tax (CTT) and a Financial Transactions Tax (FTT)?**

CTT and FTT are different regarding their respective base and rate.

#### For more information:

- Base of the CTT includes transactions between foreign currencies only, i.e. the exchange of one currency against another one. While FTT covers all financial transactions: foreign exchange markets, stock markets, bond markets, etc.
- The applicable rate recommended by experts is established at 0.005% for CTT when there is no consensus on the rate applicable for one potential FTT. Proposed rates depend on organizations or researchers studying this matter.

Both tax plans also vary by the goals they target. Purpose of the VCCT is to generate income for development cooperation. FTT intends first to limit speculation on financial markets. Given the political and technical complexity of such a mechanism, the principle and feasibility of a Financial Transactions Tax still face several questions.

### **If the VCCT was to be widespread, would it decrease the volume traded on the foreign exchange market?**

The VCCT is based on the CTT proposed in the report 'Globalizing Solidarity: The Case for Financial Levies'. Regarding market impacts, several studies have been conducted and differ in their results. What follows is an interesting quotation of the report:

"While designed to minimise impact, supporters accept that there would be a reduction in volumes, though they argue that the effect will be concentrated on high-frequency trading\* (more associated with destabilising effects on the financial sector and the macro economy), rather than low-frequency (more associated with pension funds or trade related activities)."

\* High-frequency trading is the execution of computerized [trading strategies](#) characterized by brief [position](#)-holding periods, in many cases taking advantage from [microstructure](#) inefficiencies. In high-frequency trading, programs analyze market data to capture trading opportunities that may open up for only a fraction of a second to several hours<sup>1</sup>. CREDIT COOPERATIF do not practice this kind of transactions.

### **If the VCCT was to be widespread, would it reduce liquidity on the foreign exchange market?**

According to the Committee of Experts to the Taskforce on International Financial Transactions and Development, market liquidity will not be affected in a significant way.

#### For more information:

In theory, any increase in transaction costs leads to lower liquidity\*. However, given the proposed level of 0.01%, the impact of the contribution is mainly focused on high frequency transactions. The Committee of Experts on Innovative Financing for Development believes that it will not affect market liquidity. Indeed, high frequency transactions did not exist ten years ago, when market liquidity was at a compatible level.

\* Liquidity: In business, economics or investment, market liquidity is an asset's ability to be sold without causing a significant movement in the price and with minimum loss of value. Money, or cash in hand, is the most liquid asset, and can be used immediately to perform economic actions like buying, selling, or paying debt, meeting immediate wants and needs<sup>2</sup>.

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<sup>1</sup> [http://en.wikipedia.org/wiki/High-frequency\\_trading](http://en.wikipedia.org/wiki/High-frequency_trading)

<sup>2</sup> [http://en.wikipedia.org/wiki/Market\\_liquidity](http://en.wikipedia.org/wiki/Market_liquidity)

## Further information

### Where can I find information on the Innovative Financing for Development?

Many studies have been conducted on the subject over several years. We specifically worked with the two reports below. They accurately sum up current thoughts on innovative financing. They were also used for the implementation of taxes such as the tax on airline tickets proposed by Report LANDAU.

"Globalizing Solidarity: The Case for Financial Contributions ", Committee of Experts to the Taskforce on International Financial Transactions and Development, Leading Group on Innovative Financing, 2009  
[http://www.leadinggroup.org/IMG/pdf\\_Financement\\_innovants\\_web\\_def.pdf](http://www.leadinggroup.org/IMG/pdf_Financement_innovants_web_def.pdf)

"The new international financial contributions", Landau Report, 2004  
<http://www.diplomatie.gouv.fr/en/IMG/pdf/LandauENG1.pdf>

### Useful links

About the Millennium Development Goals:

<http://www.un.org/millenniumgoals/>

About innovative financing mechanisms:

<http://www.leadinggroup.org/rubrique20.html>

About CREDIT COOPERATIF

<http://www.credit-cooperatif.coop/le-groupe-credit-cooperatif/english-presentation-of-credit-cooperatif-group/>