Many thanks for your suggestions; they are very useful for us. Our replies are divided in three issues:

1. **Conceptual issues**

- We are going to explain better the concepts, distinguishing the different financial terms in a more accurate way.
- We will mention that the systemic risk is originated by the financial complexity, not only by the financial sector size.
- We are going to incorporate the literature about the effects of Financial Transaction Tax (FTT) on the systemic risk (McCulloch and Pacillo 2011). They state that Tobin taxes tax volatility, and this volatility itself depends on the market size and the composition of the agents involved.

2. **Theoretical model**

- We will rewrite the theoretical explanation of the model in order to clarify the consequences of the presence or not of financial VAT in all the scenarios. We will also present a table summarizing it.
- The incidence of the tax will be discussed, following Huizinga 2002 and Benedek et al. 2015.

3. **Specification and estimation**

- We will take into account possible endogeneities by lagging one period explanatory variables as income. This is the recommended method of avoiding endogeneities in a GMM System.
- The non-monotonicity of the relationship between financial development and income will be considered by applying the quadratic of the income as an explanatory variable.
- A variable which reflects VAT rates will be incorporated. As you suggest, the level of taxation and not just the presence or otherwise of the financial VAT, could be a variable that affects the size of the financial sector. This hypothesis also derives from the model developed by Aigner and Bierbrauer (2015).
- You are right; the used variable is the share of Public Expenditure over the total GDP.
- We will include the total public debt, instead of the central government debt.
- We will study the effect of financial VAT on the banking market power and/or the number of entities, as a robustness check in which we analyze other factors that generate systemic risk in addition to financial sector size.

- We will take into account the possibility of including capitalization and solvency indicators as explanatory variables, although this kind of variables are more used with disaggregated firm data (Altunbas et al. 2012, Sharpe 1995). The paper studies aggregated data of financial sector, not disaggregated firm data.
- It would be interesting to apply our empirical approach for the impact of FTT, but this would be an extension of this research.
- We will revise the specification formula.

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