

Testimony of
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Good afternoon Chairman Bradley and Members of the House Revenue Committee. I am Terry Duffy, Executive Chairman and President of CME Group. Thank you for the opportunity to testify today regarding the idea of imposing a financial transaction tax in the state of Illinois.

I share the concern that you and every member of the Illinois legislature has about the state's fiscal situation. I am also extremely concerned to see a proposal like H106, which would not only fail to resolve the fiscal problem, but would make it significantly worse.

The financial services sector creates jobs and economic growth. It is critical to the financial stability of the United States. This industry is equally critical to the State of Illinois. CME Group and our colleagues in the industry are engines of job creation and economic opportunity for the state.

CME Group has over 1800 direct employees in Illinois. And about 135,000 jobs in Illinois that are tied to our exchange.

We provide significant tax revenues to the state, paying almost \$50 million in corporate taxes annually. This makes us one of the top five corporate taxpayers in Illinois.

It is worth noting that we are paying more than our fair share. While we are one of the top five corporate taxpayers in Illinois, we are number 10 in terms of market cap, so we are paying more in taxes than some of the biggest companies in Illinois.

We are committed to our state and the significant issues facing its citizens, including education. Over just the past year the CME Group Foundation has donated \$3.5 million to schools and programs advancing education in Illinois. The Foundation has given more than \$20 million over the past five years to Illinois charities.

We have a long history in Illinois and Chicago and want to keep it that way.

However, if a financial transaction tax is enacted in Illinois, our customers will leave our markets, and we will be forced to consider alternatives to remain competitive in our global industry.

A transaction tax would not only harm customers, it would also hurt the state and other parts of the U.S. A transaction tax would widen price spreads dramatically.

Wider spreads mean higher costs for consumers, because wider spreads increase the cost of managing risk. And those costs get laid off on the consumer. Every business that uses our markets to manage risks, from local farmers and ranchers to global companies in every market sector would face higher costs. And as a result, consumers would pay more for food, gas, airline tickets, and other products they use every day.

H106 would drastically increase the costs of using our markets. Our average rate per contract is 80 cents. Adding \$1 per contract for agricultural products, and \$2 per contract for all others, would increase costs by up to 800%.

The average rate for financial contracts is 50 cents. Adding a \$2 fee to that transaction would be like raising the cost of gas from \$2 per gallon to \$10 per gallon overnight. That kind of price hike will absolutely drive our customers not only out of our market – but I assure you – out of Illinois.

In short, a transaction tax will cost consumers far more than it could ever raise in tax revenues. If the state of Illinois is looking to raise billions of dollars from a financial transaction tax, I can assure you they will not reach that goal. Rather it will cost the state multiples of that number as customers flee these markets. This is another example of being penny-wise and dollar foolish.

We recently sold our data center in Aurora, Illinois. We now lease it back from the new owner, CyrusOne. CyrusOne has 30 data centers located all over the country. Our lease explicitly provides that we can use any of their data centers, so if we need to leave Illinois because of any irrational decisions coming out of the state legislature that could affect our business, we have 29 data centers to choose from.

A number of other states have offered us incentives to move our business. It would be a financial and economic shame for Illinois to lose the jobs and tax revenues created by our industry if we were forced to move.

But it wouldn't be the first time that a transaction tax drove business away from the jurisdiction imposing it.

- India enacted a commodity transaction tax in 2013 that was one-hundredth of one percent. By the end of 2014 the cost of futures transactions increased by 300%, and volume decreased by more than 40%.

This idea of a transaction tax has come up in Europe as well. Ten member states of the European Union have been trying to gain support for a transaction tax for several years. But those talks have not led to any consensus.

- In Italy, they did enact a transaction tax in 2013 ranging from two-hundredths of one percent to two-tenths of one percent and included a number of exemptions. Even so, trading fell by 38% during the first quarter of 2013. At the same time, trading rose across Europe in countries where there were no transaction taxes.

Now the Italian Prime Minister is considering suspending the tax in order to improve the productivity of his financial sector. I assure you he is way too late. Once these markets move, they do not come back. Businesses and residents of the state need to have confidence that this legislature can come up with a long-term plan that makes sense.

- That's what will attract
 - new business,
 - new residents,
 - and give companies like CME an incentive to reinvest in the state.

- We must all take a long-term view for the benefit of the health of this state and not make any politically-driven decisions based on any particular election cycle.

Imposing a financial transaction tax will not alleviate the state's budget crisis. As I said earlier, it would make it much worse. This would put the largest exchange in the United States, that's headquartered right here in Illinois, at a competitive disadvantage in a global market.

I stand ready to work with Illinois to support a fiscal solution – but a transaction tax would be a fiscal disaster.

CME Group looks forward to being part of the solution and the future of the state.

Thank you for the opportunity to testify and I look forward to answering your questions.