Testimony of
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Good afternoon Chairwoman Hutchinson and Chairman Bradley and Members of the Senate and House Revenue Committees. 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 have about the state's fiscal situation. I am also extremely concerned to see proposals like HB106 and SB2199, which would not only fail to resolve the fiscal problem, but would make it significantly worse.

The proponents of a financial transaction tax falsely claim that

- the tax is too small to make a difference,
- mistakenly think that business wouldn't move elsewhere,
- and incorrectly cite other transaction taxes around the world as evidence for why it would work in Illinois. Furthermore, the exchanges they reference are primarily stock exchanges versus futures which further distorts the information.
- They also grossly overestimate the revenues that this tax would generate for the state.

Let me tell you why they're wrong.

The proponents are basing their projections on flawed math, suggesting the unsustainable idea of taxing the notional value of the contracts traded. That is like taxing a realtor on the total value of the home he or she sold versus the commission he or she made. It does not make sense.

Their rhetoric also suggests that because the proposed tax is less than the smallest tick size, it is too small to make a difference. But the tick size for a single contract is irrelevant. Market makers, who provide liquidity, operate with razor thin profit margins, and they trade hundreds of times per day, some even more. Any additional cost when multiplied by the number of trades they make would be significant.

Adding a tax of $1 for agricultural contracts and $2 for all other contracts would drastically increase the costs of using our markets. Our average rate per contact is 80 cents; some contracts are more and some are less, depending on asset class and other factors. For some of our contracts, the proposed tax could increase costs by up to 800 percent.

Let me put that into context. The average rate for interest rate contracts, including our highest volume Treasury and Eurodollar benchmark products that are key to managing risk in the global economy, is 50 cents. Interest rate contracts make up approximately 50 percent of CME Group's volume. Adding a $2 fee to that transaction would be like raising the cost of gas from $2 per gallon to $10 per gallon overnight.

These increased costs will cause wider price spreads. Wider spreads mean higher costs for managing risk for <u>every</u> business that uses Illinois markets, from local farmers and ranchers to global companies. As a result, consumers would pay more for food, gas, and other essential products that are necessary to every day life.

I know Representative Flowers made a comparison to paying sales taxes at Walmart. First of all, traders, like all other investors pay taxes both on their profits and on the goods and services they buy. But most importantly, if this proposed financial tax were to be enacted, spreads would widen and the actual prices that everyone pays at Walmart and other stores – would increase <u>significantly</u>.

A transaction tax will absolutely drive our customers and customers of other exchanges not only out of the markets – but I assure you – out of Illinois. They will take their business to places where they don't have to pay a financial transaction tax to manage their risk.

Not only will our customers leave, but we will be forced to do the same. While the proponents of a transaction tax keep saying CME won't have an incentive to move because we aren't the ones paying the tax, that argument fails to take into account basic business principles. Every business requires customers to exist. If we, or any business for that matter, loses its customers, we would be out of business!

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 <u>explicitly</u> 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 28 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.

CME Group has over 1800 direct employees in Illinois. And about <u>135,000</u> 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.

We are paying <u>more</u> than our fair share. While we are one of the top five corporate taxpayers in Illinois, we are only number 10 in terms of market cap, so we are paying <u>more</u> 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 CME Group has donated almost $4 million to schools and programs advancing education in Illinois. CME has given more than $20 million over the past five years to Illinois charities.

But a transaction tax is a sure way to drive the jobs, tax revenues, and economic opportunity that our industry provides right out of the state. There <u>couldn't</u> be a worse time to do that.

Our residents and businesses are already fleeing to other states in search of better opportunities. Census data shows Illinois' population has decreased for the first time since the 1980s. This trend will put the city of Chicago on a path to lose its title as the third largest U.S. city within the next several years.

Losing Illinois' status as a global financial center is <u>not</u> the way to turn those figures around.

But it wouldn't be the first time that a transaction tax drove trading out of the jurisdiction imposing it. The proponents of this tax note that other countries have imposed transaction taxes. Countries such as India, Sweden, and Italy have indeed imposed varying forms of this type of tax over the last 30 years – but all with dismal consequences.

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

- In Sweden, there was a transaction tax on Swedish government bonds and bills imposed from 1984 to 1991. Trading volume fell 98%. Options trading disappeared.
  The cost of government borrowing increased.

- A 2011 study by the European Commission -- which has been weighing such a tax for more than five years -- found that a <u>one-tenth of one percent</u> tax on securities could reduce future GDP growth by almost 2 percent.

- Ten member states of the European Union have been trying to gain support for a transaction tax for several years, but have not reached any consensus. In fact, last Friday, the <u>Austrian</u> Finance Minister, who has been leading the negotiating group, announced that he expects the talks to end as early as this week as more EU member states continue to withdraw support.

- In Italy, they did enact a transaction tax in 2013 ranging from <u>two-hundredths of one percent</u> to <u>two-tenths of one percent</u> and included a number of exemptions. Even so, trading fell by 38% during the first quarter of 2013. At the same time, trading <u>rose</u> 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.

Multiple studies have concluded that transaction taxes inflict economic harm and fail to raise expected revenues. One such study, by Christopher Culp, from the Finance Department at the University of Chicago's Booth School of Business, notes that "the economic literature indicates that imposition of financial transaction taxes is unlikely to generate significant revenue and is likely to interfere, perhaps significantly, with the performance of the U.S. financial markets."

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
  - <u>new</u> business,
  - new residents,
    <u>and</u> give companies like CME and others an incentive to reinvest in the great state of Illinois.

- 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.

To do that, the state must honor the pension and labor agreements to which it committed and work with the public and private sector to find a realistic solution.

Imposing a financial transaction tax will <u>not</u> 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 – in the great city of Chicago – at a competitive disadvantage in a global market.

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

On behalf of CME Group, we look forward to being part of the solution and the future of Illinois.

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