



Financial Transaction Taxes Do Not Deliver

Any financial transaction tax on equities, options, and futures in the U.S. would adversely impact market quality and increase costs for retail investors.

Financial Transaction Taxes are an Inefficient Instrument for Raising Revenue

Any financial transaction tax (FTT) on equities, options, and futures in the U.S. will likely increase costs for retail investors. Proponents of FTTs typically assume that volumes and market quality will remain intact after the imposition of the FTT. However, FTTs change trading behaviors in unintended ways. For example, research shows that FTTs cause wider bid-ask spreads and decrease order book depth, which raises costs for retail investors because there is less liquidity available (lower book depth) at worse prices (wider bid-ask spreads). Not only does market quality suffer, but projected revenues are typically not realized due to the behavioral changes.

FTTs Harm Retail Investors

If a transaction tax is implemented institutions will pass through the cost of the tax to investor clients. As the industry passes an FTT's cost onto customers, it is the individual investor that will feel the brunt of the FTT. Thus, any FTT would place an added burden on individual investors and potentially cause them to not sufficiently adjust or protect their portfolios.

Tax Policy Should Encourage Risk-Reducing Trading Strategies

If anything, after the 2008 Financial Crisis, U.S. tax policy should encourage the use of financial products that lower systemic risk and individual portfolio risk. Centrally cleared exchange listed products avoid systemic risks associated with non-centrally cleared over-the-counter derivatives. Additionally, many exchange listed products – especially options – offer risk-reducing properties for individual portfolios. Individuals and institutions are able to use listed options to protect their portfolios by, for example, buying puts that will increase in value as the portfolio of individual stocks or stock indexes goes down in value. FTTs might discourage the use of these helpful investment tools because of the added tax cost.

Research on FTTs

Numerous studies illustrate the negative effects of FTTs and demonstrate that FTTs are an inefficient instrument for raising revenue. Moreover, FTT literature as a whole demonstrates that there are unintended, unforeseen consequences, causing economic distortions that cascade through the marketplace in unpredictable ways.



2011 International Monetary Fund (IMF) Summary of FTT Literature

The IMF concluded that FTTs:

- Reduce security values; raise the cost of capital for issuers; and reduce trading volume, which in turn reduces liquidity and slows price discovery;
- Are inefficient instruments for regulating financial markets and preventing bubbles; likely to increase volatility; and increase costs to individuals, corporations, pension/mutual funds.

France

In 2012, France introduced a 0.2% tax on equity securities transactions on large French companies. The tax was not applied to options, futures, or warrant transactions and exempted day trading and market making activities. The tax:

- Raised half as much revenue as the French government originally estimated (Modern Markets Initiative, 2017) and had a negative overall impact, reducing exchange-based trading by 10%; reducing overall trading volume by 30%; and virtually eliminating large block trading (Colliard and Hoffmann, 2013);
- Increased bid-ask spreads and reduced order book depth (Kaferkorn and Zimmermann, 2013);
- Did not decrease market volatility (Capelle-Blancard and Havrylchyk, 2015).

Italy

In 2012, Italy introduced a 0.1% tax for on-exchange equity securities transactions on large Italian companies, 0.2% on over-the-counter transactions, a fixed levy on derivatives transactions that varied by type of derivative instrument, and exempted day trading and market making activities.

- Italian tax raised less than 20% of the targeted 1 billion during the first year of the tax (Modern Markets Initiative, 2017);
- Increased bid-ask spreads; increased volatility; reduced liquidity (European Central Bank, 2016); and reduced average daily volume by over 34% (FTSE Global Markets, April 2014).

Sweden

In 1984, Sweden introduced a 1% tax on equity transactions, increasing the tax to 2% in 1986 and expanding the tax to include bonds in 1989.

- The 1986 tax lowered stock prices and turnover; reduced trading volume by 30%; caused 60% of the 11 most traded shares to migrate to London; and reduced liquidity without reducing volatility (Umlauf, 1993);
- The 1989 tax reduced bond trading volume by 85% and bond derivatives trading by 98% without reducing volatility (Umlauf, 1993).

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