STA

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March 17, 2021

The Honorable Maxine Waters
Chairwoman
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
U.S. House Committee on Financial Services
4340 O'Neill House Office Building
Washington, DC 20024

Dear Chairwoman Waters and Ranking Member McHenry,

The Security Traders Association[1] ("STA") appreciates the opportunity to provide comments in response to U.S. House Committee on Financial Services March 17, 2021, virtual hearing, "Game Stopped? Who Wins and Loses When Short Sellers, Social Media and Retail Investors Collide, Part II." STA is an organization comprised of individuals who are involved in the trading of financial securities in the U.S and Canada. Our members are employed at retail brokerage firms, agency only broker dealers, asset owners and managers, liquidity providers and exchanges. Our comments are in response to remarks made about potential benefits which a financial transaction tax (FTT) could provide to certain behavior deemed harmful to investors and the markets as a whole.

Background

In recent years, several state and federal proposals have sought to impose a financial transaction tax. While each attempt has varied slightly in design, they have all espoused a seemingly low rate and broad-based design to raise revenue while curbing behavior deemed threatening to the markets, such as high frequency trading engaged by proprietary trading firms.

STA opposes FTTs because they are paid by the end investor and result in higher trading costs due to wider spreads, decreased liquidity, increased price volatility, or lower performance on investment vehicles due to reduced trading volume. While most FTT proposals appear on the surface to have low rates, they add up to significant costs for individual investors, especially over time. These costs can be even more

[1] STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association's founding principle, Dictum Meum Pactum – "My Word is My Bond." For more information, visit https://securitytraders.org/.

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significant to retail investors when the tax can be applied multiple times in their portfolio, including but not limited to the purchase of mutual funds, the mutual fund's purchase of individual stocks and bonds, the mutual fund rebalancing its funds, and individual investors rebalancing their portfolios. This same impact would be felt by pension funds, reducing returns for beneficiaries.

Recent Remarks

Most recently, calls for an FTT have made been under the guiding principle that by adding this additional cost, trading will slow down and it will discourage purported dangerous high frequency trading. STA believes that to the extent there are potentially problematic practices around high frequency trading, these are best addressed through SEC rulemaking, or if violations of current rules have occurred, through enforcement. While the markets are not perfect, they are highly competitive and serve individual investors well, as evidenced by the lower costs and barriers to accessing the markets. Attempts to improve overall safety or market functioning should be pursued through regulation and rulemaking rather than imposing costs associated with a financial transaction tax.

Some proponents of FTT proposals have suggested that an FTT would curb behavior deemed to be a threat AND raise reliable revenue. However, FTTs would certainly fail to achieve both objectives. If an FTT is effective in curbing perceived dangerous trading behavior, it would result in those participants engaging in this behavior to stop, reducing the overall trading volumes and therefore the revenues collected from the tax. The question then becomes, who is left to pay the FTT? Answer: the individual investor whose behavior was never deemed necessary to curb.

State Financial Transaction Taxes

As many states face fiscal issues due to the COVID 19 pandemic, some states are pursuing FTTs as a means to close budget gaps. While the details of each state's proposed tax are different, they too espouse seemingly low rates and broad-based designs which forecast reliable revenue with minimal impact to behavior. An FTT with any tax level will negatively impact the markets and investors' returns, but a question with state-imposed FTTs is whether any state, or group of states, should be allowed to impose a tax on the national markets for their own benefit. STA believes states should not impose an FTT. In addition to the negative impact FTTs would have on the returns of investors and the economies of the states imposing them, state FTTs would effectively subject the National Market System to each states' tax policy and would also have the potential to impose taxes on some residents of other states.

STA supports H.R. 1584, The Protecting Retirement Savers and Everyday Investors Act, which would prohibit states from imposing a Financial Transaction Tax (FTT) on certain industry participants that would be paid by out-of-state investors when the FTT is passed onto them.

Conclusion

In the end, an FTT is a tax on capital and the savings of individual investors that causes ripple effects detrimental to the economy. We oppose FTTs, as they would harm the markets and would fail to raise the revenues they project.

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