



Invested in America

Memorandum in Opposition

March 7, 2013

S. 729 (Avella) Senate Judiciary Committee

The Securities Industry Financial Markets Association¹ (“SIFMA”) opposes legislation that would reduce the current rebate of the New York State stock transfer tax (“STT”). Enacted in 1981, a rebate effectively repealed the tax, which has been on the books since 1905. In its 76-year span, there were many changes to the law, with each demonstrating a measurable positive or negative effect. While we acknowledge the difficulties posed by a budget shortfall, a STT enacted in New York State could hurt employment, stifle the recovery of NY-based exchanges and trading firms’ market share, and not yield the amount of tax revenue as intended. This proposal would additionally be a tax on individual investors, who along with larger institutions could relocate their operations. An STT on equities transactions becomes a pricing issue for investors, who can easily book their trades elsewhere. These easily preventable effects should be avoided in the pursuit of solving budget woes, as they:

- Increase cost of capital for investors (price of trades) – including employee pension funds, IRA/401(k) plans, and savings accounts
- Increase the volatility of trading (have done so by as much as 10% historically in New York State)
- Reduce the volume of trades executed in exchanges and by investment management organizations in New York State

A recent study² completed by the Bank of Canada (paired with Rutgers University), compiles comprehensive empirical data and analysis for the first time on the history of the New York State STT – examining several data points. The study takes into consideration nine major changes to the law between 1905 and 1981 in analyzing the economic impact of the STT on market quality: focused exclusively on New York State relative to historical trading volume, price impact of trades, and bid-ask spreads. This thorough deep-dive into the New York State STT was commissioned due to the resurgence of proposals in both the U.S. Congress and Europe, and provides additional tested economic evidence of the harm caused, in addition to the longstanding Swedish³ and Japanese examples. The team found that throughout the history of the STT, the impact was felt more dramatically in New York State than negative effects in nearby Massachusetts and Pennsylvania, who

¹The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² Pomeranets, Anna and Weaver, Daniel, November 2011, “Security Transaction Taxes and Market Quality”, *Bank of Canada*, <http://www.bankofcanada.ca/2011/11/publications/research/working-paper-2011-26>

³ In 1984, Sweden implemented a 1% transaction tax (or \$0.01 per \$1) on equities traded, which was later doubled in 1986. This led to 60% of trading volume in the most highly traded Swedish stocks to shift out of the country to London. Sweden also implemented a much smaller tax on the trading of fixed income securities, 0.002% on short-term securities and 0.03% on long-term bonds. Immediately after, bond trading volumes fell by 85%, and both futures and options trading nearly disappeared. Expected tax revenues most notably from the fixed income tax were never fully realized as there was such a dramatic decline in and shifting offshore of trading activity. (Steven R. Umlauf, “Transaction Taxes and the Behavior of the Swedish Stock Market”, *Journal of Financial Economics* 33 (2), 227-240, April 1993)

also adopted an STT briefly. The study on New York State's STT, uncovers that within the 1905-1981 span, corporations effectively managed par values in the direction of minimizing taxes of transactions. As bid-ask spreads for equities prices are directly related to a firm's cost of capital, it was discovered that given the New York State historical data points, imposition of the STT "hinders economic growth by reducing the present value of projected profits." A 1993 study⁴ alluded to by the researchers further breaks down the components of this bid-ask spread variance: that a STT would increase transaction costs indirectly through order processing costs, inventory risk, and information asymmetry. An increase of transaction costs thus makes the rate of return requirement for firms' investments increase as well. Imposition of a STT would be misguided for New York State to consider, as financial services organizations already operate in a location with one of the highest costs of doing business globally.

According to the NY Office of the State Comptroller, the securities industry accounts for over 14 percent⁵ of New York State's tax revenue (\$8.7 billion), and employs over 191,600 people⁶ specific to the securities industry – 694,100 people work in financial services or related capacities. The levels of employment are however not at the mark they were pre-financial crisis; and with only a small portion of the new regulations from the Dodd-Frank Act and the Basel III Accord implemented, the industry's future growth remains uncertain. The demand for back office support of these regulations is already causing pressure to maintaining profitability – as mandated compliance (especially for smaller organizations) is vast. History has shown that the STT causes migration of investment operations and auxiliary services. The amount of revenue received by implementing a new tax would be counterproductive if concurrently employers relocate; thus absolving their current contribution to the tax base. We believe that any revenue benefits derived from the STT would surely be dwarfed by overall loss in business activities and personal income taxes from job relocations.

It is increasingly likely that organizations in New York State affected by an STT would move their trading operations to jurisdictions that do not impose a STT. Relocating domestically and offshoring trading operations is now easier than ever as the number of investment companies and exchanges adopting electronic platforms accelerate. NYSE no longer requires its member firms to maintain their corporate headquarters within a one-mile radius of exchange, and NYSE itself has already created a high-frequency trading platform in New Jersey⁷ due to incentives that the state provided. The startup costs for transferring operations are minimally less cost-prohibitive than they were in past decades. Additionally, the existing federal regulatory climate has made New York State's financial services employers reluctant to expand operations in the state, effectively flatlining growth. Expansion of employment in New York State of the securities industry was 0.5 percent in the past ten years, whereas nationally, expansion was 0.8 percent. Creating more obstacles for employers' growth will be detrimental to overall health of the State economy.

In conclusion, the legislation as proposed would directly harm New York State's individual investors, employers (both financial services and related capacities, and the existing tax revenue to New York State.

Thank you for your consideration of our views. If you need additional information or have questions, please contact Nancy Donohoe Lancia at 212-313-1233.

⁴ Schwert, G.W., and Seguin, P, 1993, Securities Transaction Taxes: An Overview of Costs, Benefits and Unresolved Questions, *Financial Analysts Journal* pp. 27-35

⁵ U.S. Department of Labor, 2012 Statistics by Industry, <http://bls.gov/data/>

⁶ Securities Industry Office of the State Comptroller, <https://www.osc.state.ny.us/osdc/rpt9-2013.pdf>

⁷ Scott Patterson and Serena Ng, "NYSE's Fast-Trade Hub Rises Up in New Jersey," *The Wall Street Journal* (July 30, 2009)