MANAGED FUNDS ASSOCIATION

Statement of Louis A. Costantino, Jr.
Executive Vice President and Managing Director,
Managed Funds Association

Before the New Jersey State Assembly Committee on
Financial Institutions and Insurance

In Opposition to the Proposed Tax on High-Quantity processors of Financial Transactions (A4402)

OCTOBER 19, 2020

Chairman McKeon, Vice Chair Lampitt, Members of the Committee, I am Lou Costantino, Executive Vice President and Managing Director, Government Relations for the Managed Funds Association ("**MFA**"). I am pleased to provide this statement on behalf of MFA to present our members' views in opposition to the Proposed Tax on High-Quantity processors of Financial Transactions (A4402). MFA represents the majority of the world's largest hedge funds and is the primary advocate for sound business practices for hedge funds, funds of funds, managed futures funds, and service providers. MFA's members manage a substantial portion of the approximately $3 trillion invested in hedge funds around the world. Our members serve pensions, university endowments, and other institutions.

MFA's members are among the most sophisticated investors and play an important role in our financial system. They provide liquidity and price discovery to capital markets, capital to companies seeking to grow or improve their businesses, and important investment options to investors seeking to increase portfolio returns with less risk, such as pension funds trying to meet their future obligations to plan beneficiaries, and university endowments and charitable foundations serving both students and charitable causes in ordinary times and in the midst of a pandemic. Our member funds help institutions and their stakeholders honor pension obligations, and fund scholarships, and support charitable work in communities throughout New Jersey. The NJ Division of Investment invests nearly $5.5 billion in hedge funds to help secure the retirements of approximately 800,000 New Jersey teachers, fire fighters, police officers, and other public employees.

IMPOSING A FINANCIAL TRANSACTION TAX WILL HARM NEW JERSEY

Financial Transaction Taxes Fail to Raise Significant Revenues

Studies show that financial transaction taxes (FTTs), like AB4402, do not raise the amount of revenue their proponents estimate.

Sweden, one of the best documented experiences with FTTs, estimated its FTT on fixed income transactions would raise 1.5 billion Swedish Krona per year; however, the tax raised only about 50 million Swedish Krona per year, or approximately 3% of the estimate.

More recent FTTs adopted by France and Italy also have failed to generate estimated revenues. The Italian FTT has raised €159 million compared to an estimate of €1 billion annually, or 16% of estimated revenues. The French FTT, which was designed to raise only modest revenues of €1.5 billion annually, nonetheless has raised only about 58% of those estimated revenues. In addition to falling well short of revenue estimates, each of these FTTs has had other negative consequences for those countries.

Imposing a Tax on Financial Transactions Will Cost Jobs and Revenues

A key reason that FTTs do not raise estimated revenues is that businesses and markets adjust and engage in transactions that are not subject to the FTT.

If New Jersey were to enact a financial transaction tax, market participants will adjust by engaging in transactions with competitors in other states or countries that offer similar services, but without the additional cost of an FTT. New Jersey based businesses are likely to relocate some or all of their business to other states to avoid being placed at such a competitive disadvantage.

Studies of the FTTs in Sweden, France, and Italy, among others, show similar responses when those countries implemented their FTTs, as trading and businesses have moved to other countries that do not impose the additional tax.

A reduction in New Jersey's financial services industry will cost jobs and the tax revenues associated with those jobs. Other businesses (such as restaurants and local stores) that rely on financial services employees as customers will also be harmed. These losses would significantly reduce, and perhaps even exceed, any revenue collected from an FTT.

FTTs Harm Pensions and Investors Saving for Retirement

While New Jersey's FTT would be directly imposed on the companies that process financial transactions, the costs of any tax will be passed onto their customers, including pension plans, endowments, charities, and individuals saving for retirement.

In addition to these direct costs, pensions and savers will bear the indirect costs of a tax, including reduced asset values, less liquid markets, and higher costs to execute transactions. Higher transaction costs and reduced liquidity in markets also impose opportunity costs on investors, as the variety of investment opportunities likely will become limited—the opposite of what an institutional investor needs to serve her ultimate beneficiary in good times and bad. For example, take an investment strategy that requires liquid markets and low transaction costs to generate a pension's desired investment returns. The loss of liquidity and increased costs created by an FTT could make that strategy no longer economically viable or, at a minimum, could require the pension plan to reduce the amount of money it can allocate to the strategy for it to continue generating value in markets that have less volume.

All of these direct and indirect costs are likely to have a significant impact on the returns that pensions and savers need from their investments, requiring workers to delay their retirements. While the tax rate proposed by A4402 may seem small, pension funds and other investors are likely to pay the tax multiple times on their assets as they manage the investments in their portfolios to maximize returns and manage risks. This cascading effect will lead investors to pay a significantly higher cumulative tax rate than the base rate.

An FTT Will Not Produce Immediate Revenues

Even if New Jersey were to impose an FTT, it would not likely begin receiving revenues until legal issues can be addressed. The delay in collecting actual revenue provides yet another reason why enacting an FTT would be ill suited to respond to the state's current revenue needs.

Imposing a tax on transactions entered into by individuals and businesses across the country with no real connection to New Jersey raises significant constitutional issues given the outsized impact such a tax would have on interstate commerce. Collection of the tax is likely to be delayed until those legal issues can be resolved.

I appreciate the opportunity to present this statement on behalf of MFA as the Committee considers AB 4402. MFA is committed to working with Members of the Financial Services and Insurance Committee to ensure the continued vibrancy of our financial markets and to strengthen

New Jersey's and our Nation's economy. MFA would be happy to answer any questions that you may have.