MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
Washington, DC 20515

PATRICK McHENRY, NC
RANKING MEMBER

November 20, 2019

The Honorable Steven T. Mnuchin
Secretary
United States Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Mnuchin:

I write in your capacity as Chairperson of the Financial Stability Oversight Council (FSOC) and to request your assistance in understanding the effects of a financial transactions tax (FTT) and the impact a number of proposals offered by Members of Congress will have on the U.S. capital markets and U.S. economy at large.[1] Proposals suggesting that taxes will be paid directly when an individual purchases or trades on an exchange, or when a company purchases derivatives such as futures contracts or options to hedge against price changes in an important commodity for their business, directly implicate the stability of marketplace. I also believe that potential indirect costs resulting from an FTT in the form of increased fees for mutual funds or other investments to account for the tax paid by an investment adviser have the ability to disrupt the marketplace and impact everyday investors.

To that end, the federal government has yet to conduct an exhaustive study on the impact these proposals will have on everyday investors or the U.S. economy at large. I am requesting your assistance in tasking the Office of Financial Research ("OFR") to conduct an analysis of both the direct and indirect costs of a FTT as proposed in S. 1587 and H.R. 1516. As part of its review, OFR should include the following:

- The potential loss of savings in retirement and other savings accounts, given that CBO found that an FTT "would immediately lower the value of financial assets";[2]
- The potential loss in savings in public and private endowments and pension plans;
- The increased likelihood that issuers would list on non-U.S. exchanges, including Chinese or Hong Kong exchanges;
- Additional costs of doing business for industries that would be impacted by the taxation on derivatives, such as the agriculture, energy, and transportation sectors;
- The impact on government borrowing rates (both federal and state/municipal rates) and private sector interest rates, as well as the impact that such rate changes would have on jobs and capital investments;

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[1] *See, e.g.*, S.1587 (116th Cong.) (imposing up to a 0.5% tax on transactions in shares of stock, 0.1% tax on transactions of bonds, and 0.005% tax on the notional value of derivatives); H.R. 1516 (116th Cong) (imposing an across-the-board 0.1% tax on transactions of all covered security and derivatives transactions).
[2] *Id.*

- Indirect costs to individuals and end users, such as the costs associated with a potential increase in mortgage rates or the increased financial cost of public infrastructure; and
- The likely impact on mutual fund and investment advice fees for Main Street investors, including the effect on "target date" retirement funds that automatically rebalance on a periodic basis.

In addition to the above, it may be useful for OFR to conduct its own analysis on the additional cost that a typical American saving for retirement would face as a result of an FTT. One disturbing study indicates that, with an FTT in place, a typical mutual fund investor would have to work an additional two and a half years to achieve the same retirement goal.[3] I am interested to know whether OFR finds similar results. Given the potential ramifications on financial stability, I would appreciate your prompt attention to this request.

If you have any questions, please contact McArn Bennett or James McGinnis at (202) 225-7502.

Sincerely,

Patrick McHenry
Ranking Member

cc: The Honorable Maxine Waters, Chairwoman
The Honorable Dino Falaschetti, Director, OFR

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[3] *See* Vanguard, "Main Street Investor at Risk: A Financial Transaction Tax Would Harm Everyday Investors" (2019), *available at* https://www.napa-net.org/sites/napa-net.org/files/Vanguard_financial%20transaction%20tax_090419.pdf.