

VIA FACSIMILE

March 2, 2006

The Honorable X
United States House of Representatives
Washington, DC 20515

Dear Congressman X:

The Administration's FY 2007 budget proposal seeks to levy a transaction tax on futures transactions executed on exchanges regulated by the Commodity Futures Trading Commission (CFTC) to fund the entire budget of the Commission. The FY 2007 CFTC proposed budget is \$127 million. If implemented, such a tax would significantly reduce the vital liquidity on U.S. futures exchanges, which would put U.S. exchanges at a severe competitive disadvantage against their foreign and over-the-counter competitors, and would most likely not generate the tax revenues it is intended to raise.

U.S. futures exchanges currently spend millions of dollars every year on internal self-regulatory programs. In addition, the industry funds the \$35 million annual budget of the National Futures Association (NFA) – a self-regulatory organization authorized by Congress in 1982. Adding a transaction tax to these already significant expenditures would increase the costs of doing business on U.S. exchanges to a level that would likely result in the export of that business to other jurisdictions.

While this tax proposal is labeled a "fee" intended to cover the cost of operating the CFTC, policy analysts and courts that have examined the question of defining "user fees" vs. taxes agree that one key criteria in making such a determination is whether the charges levied are for purely private benefits or whether public benefits are conferred in the process. The public benefits of price discovery and risk management are enjoyed by the full range of entities operating in the US economy, whether or not they trade in the futures markets. From the U.S. Treasury, which saves substantially on its debt financing costs, to every food processor or farmer, every consumer and company that uses energy products for their daily transportation, heating and manufacturing needs, and anyone who relies on publicly available futures prices as an accurate benchmark, everyone in our economy is a public beneficiary of vibrant, efficient futures markets.

The tax proposed in the Administration's budget would nearly double the trading costs of some market-makers who provide vital liquidity to U.S. exchange markets. Their profit margins are razor thin, yet they provide critical liquidity that makes U.S. exchange markets more efficient and cost-effective to all customers who use them to manage risk. These individuals and small businesses would be forced to bear the full cost of the tax, which is estimated to be about \$100 million, without regard to their profitability.

There are serious questions as to whether this proposed tax would actually raise the anticipated revenue. The tax creates enormous incentive to move a significant portion of business currently conducted on U.S. exchange markets to foreign futures exchanges or into over-the-counter markets. Every contract lost to those competitors in response to the new tax represents loss of anticipated tax revenue. Moreover, in addition to reducing liquidity on the U.S.-regulated markets, the new tax will cause U. S. investors to participate in less transparent markets that are not subject to U.S. regulatory oversight - further amplifying the harmful impact on the price discovery process that is so vital for American consumers.

The U.S. futures industry has vigorously opposed this type of tax in the past because of the harmful effects it would have, not just on our markets but on the nation's financial health as well. This proposed tax poses a severe threat to U.S. futures market liquidity and global competitiveness that our nation


simply cannot afford. The futures industry is an industry that employs tens of thousands here in the United States – such a tax could threaten those jobs as well. Fortunately, Congress has agreed in the past with the industry’s position.

We ask you to ensure that this counterproductive tax proposal is again rejected and that our industry remains competitive and the leader in global risk management. We look forward to the opportunity to discuss this with you in more detail and welcome any questions you may have.

Sincerely,



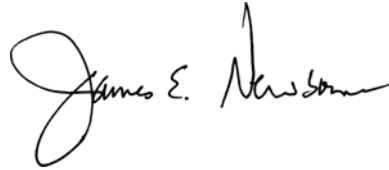
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Chicago Board of Trade



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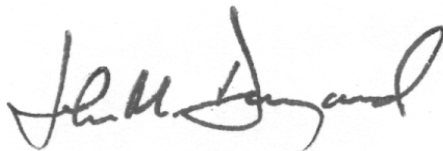
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