CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 13, 2017

H.R. 3312
Systemic Risk Designation Improvement Act of 2017

As ordered reported by the House Committee on Financial Services on October 12, 2017

SUMMARY

H.R. 3312 would amend current law to change the process and procedures for determining which bank holding companies should be designated as systemically important financial institutions (SIFIs). Under current law, all banks with consolidated assets exceeding $50 billion are automatically designated as SIFIs and are subject to additional requirements imposed by the financial regulators. H.R. 3312 would repeal the automatic designation for most banks and assign the responsibility for making such designations to the Federal Reserve.

Based on information from the federal financial regulators, CBO estimates that enacting the legislation would increase net direct spending by $53 million and increase revenues by $10 million over the next 10 years, leading to a net increase in the deficit of $43 million over the 2018-2027 period. Some of that cost would be recovered from financial institutions in years after 2027. Pay-as-you-go procedures apply because enacting the bill would affect direct spending and revenues.

CBO estimates that enacting H.R. 3312 would not increase net direct spending or on-budget deficits by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 3312 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would increase the cost of an existing private-sector mandate on entities that pay fees to the Federal Reserve and the Financial Stability Oversight Council (FSOC), but CBO estimates that the incremental cost of the mandate would be well below the annual threshold for private-sector mandates established in UMRA ($156 million in 2017, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 3312 is shown in the following table. The costs of this legislation fall within budget function 370 (advancement of commerce).

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Administrative Costs to the Federal Reserve, FSOC, and the OFR	1	1	1	1	1	-2	*	*	*	*	5	3
Additional Costs to the FDIC to Resolve Failed Financial Institutions [a]	0	0	6	11	8	5	3	2	2	3	25	40
Total Change in the Deficit	1	1	7	12	9	3	3	2	2	3	30	43
Memorandum: Components of the Net Change in the Deficit												
INCREASES IN DIRECT SPENDING												
Estimated Budget Authority	0	0	7	12	9	7	5	4	4	5	28	53
Estimated Outlays	0	0	7	12	9	7	5	4	4	5	28	53
INCREASES OR DECREASES (-) IN REVENUES												
Revenues	-1	-1	*	*	0	4	2	2	2	2	-2	10

Amounts may not sum to totals because of rounding; * = Between -$500,000 and $500,000;
FSOC = Financial Stability Oversight Council; OFR = Office of Financial Research;
FDIC = Federal Deposit Insurance Corporation.

a. Costs to resolve financial institutions are eventually offset by assessments on federally insured depository institutions and other large financial firms.

BASIS OF ESTIMATE

The budgetary effects of the legislation would stem from changes in administrative costs primarily at the Federal Reserve and from the small chance that the Federal Deposit Insurance Corporation (FDIC) would incur additional costs to resolve failed financial institutions. For this estimate, CBO assumes that the bill will be enacted during fiscal year 2018. Estimated spending is based on historical patterns.

Administrative Costs to the Federal Reserve, the Financial Stability Oversight Council, and the Office of Financial Research

Enacting H.R. 3312 would change the framework under which financial institutions are designated as SIFIs. Under current law, all banks with consolidated assets exceeding $50 billion are automatically designated as SIFIs. Eighteen months after enactment, H.R. 3312 would repeal that automatic designation for most banks—those that are not designated as globally significant by the Basel Committee—and assign the responsibility for additional designations to the Federal Reserve. (The eight banks that are currently designated as globally significant would retain that designation.)

The Federal Reserve Board of Governors spends about $700 million a year on enhanced prudential regulation and supervision of SIFIs.[1] Based on an analysis of information from the Federal Reserve, CBO expects that they would temporarily reassign a number of staff members whose responsibilities currently include supervision and regulation of SIFIs to complete the new rulemakings and evaluations of bank holding companies required by the bill. CBO expects that the initial evaluations would be made within the first several years, after which the total number of staff supervising and regulating SIFIs would be the same as under current law. However, the cost estimate reflects the probability that the Federal Reserve would have to hire additional legal staff to evaluate and defend SIFI designations. Administrative costs to the Federal Reserve are reflected in the federal budget as a reduction in remittances to the Treasury (which are recorded in the budget as revenues). The costs of any new legal staff would be offset over time by assessments on SIFIs. As a result, CBO estimates that administrative costs to the Federal Reserve, net of fees, would decrease revenues by $2 million over the 2018-2027 period. The remainder would be recovered after 2027.

H.R. 3312 would require FSOC to consult with the Federal Reserve and review any rules the agency develops to designate additional bank holding companies as SIFIs. Under the bill, FSOC would be required to approve additional designations proposed by the Federal Reserve. CBO expects that the Federal Reserve also would consult with the Office of Financial Research (OFR) on any additional designations. Based on information from the agencies, CBO estimates that administrative costs for FSOC and the OFR to provide additional support to the Federal Reserve and to review any proposed designations would increase the deficit by $1 million over the 2018-2027 period. That amount includes increases in direct spending of $4 million and increases in revenues of $3 million (net of effects on income and payroll taxes). Under current law, expenses of FSOC are considered to be expenses of the OFR, which is recorded in the budget as a change in direct spending. The OFR is authorized to levy assessments on certain financial

1. For a definition of enhanced prudential regulations see *Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations* in the Federal Register, March 27, 2014.

institutions to offset its operating costs. These assessments are recorded in the budget as revenues.

Additional Costs to the FDIC to Resolve Failed Financial Institutions

Under current law, firms that are designated as SIFIs are subject to enhanced prudential regulation by financial regulators. Among other things, those regulations require SIFIs to undergo special stress tests, develop resolution plans, and maintain certain levels of liquidity and financial capacity to absorb losses. Based on an analysis of information from national credit rating agencies and academic, industry, and regulatory experts, CBO concludes that the added capital and transparency that results from enhanced prudential regulation improves the safety and soundness of the affected firms. CBO expects that the value of that enhanced prudential regulation will reduce losses incurred by regulated institutions by about $450 million over the 2018-2027 period. On balance, CBO estimates that such regulation lowers the FDIC's gross cost to resolve insolvent firms (whether through the Orderly Liquidation Fund or the Deposit Insurance Fund) because those measures should result in shareholders and other creditors absorbing a larger share of any losses in the event of insolvency.

CBO expects that enacting H.R. 3312 would primarily affect the SIFI designation of banks with consolidated assets of less than $250 billion that are not designated as globally significant. Those banks account for roughly 25 percent of assets held at bank holding companies currently designated as SIFIs. Based on the most recent banking profile published on October 26, 2017, by the OFR, CBO anticipates that under the bill the Federal Reserve Board would designate banks with assets of more than $250 billion as SIFIs and would complete that designation process by 2020.[2] Using that OFR profile, CBO also expects that the handful of institutions with consolidated assets of less than $100 billion would no longer be classified as SIFIs. Because of the uncertainty surrounding the Federal Reserve Board's designation of banks with consolidated assets between $100 billion and $250 billion, CBO assumes for this estimate that roughly one-half of the assets at those banks (excluding those continuing to be designated as globally significant) would no longer be subject to enhanced prudential regulation under H.R. 3312.

Assets at the institutions that CBO estimates would no longer be subject to enhanced prudential regulation under H.R. 3312 account for roughly 10 percent to 15 percent of total assets currently subject to such regulation. CBO estimates that removing the SIFI designation from some financial institutions would increase gross losses to the FDIC by about $50 million. CBO expects that about $10 million of losses incurred by the FDIC would be recouped over the 2018-2027 period, but that most of those costs would be

2. See www.financialresearch.gov/viewpoint-papers/files/OFRvp_17-04_Systemically-Important-Banks.pdf

offset after 2027 by income to the FDIC from fees paid by insured depository institutions, which are recorded in the budget as offsets to direct spending, and by fees paid by certain large financial institutions which are recorded in the budget as revenues. As a result, CBO estimates that additional costs to the FDIC would result in net deficit increases of $40 million over the 2018-2027 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 3312, as ordered reported by the House Committee on Financial Services on October 12, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	1	1	7	12	9	3	3	2	2	3	30	43
Memorandum:												
Changes in Outlays	0	0	7	12	9	7	5	4	4	5	28	53
Changes in Revenues	-1	-1	0	0	0	4	2	2	2	2	-2	10

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

MANDATES

H.R. 3312 contains no intergovernmental mandates as defined UMRA. CBO expects the Federal Reserve and FSOC would increase assessments to offset the costs of implementing the additional regulatory activities required by H.R. 3312. Thus, the bill would increase the cost of an existing mandate on private entities required to pay those assessments. Based on information from FSOC and the Federal Reserve, CBO estimates that the incremental cost of the assessments would be below $3 million annually and would be under the annual threshold for private-sector mandates established in UMRA ($156 million in 2017, adjusted annually for inflation).

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