CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 8, 2018

H.R. 4061
Financial Stability Oversight Council Improvement Act of 2017

As ordered reported by the House Committee on Financial Services on January 18, 2018

SUMMARY

H.R. 4061 would change the procedures that federal regulators follow for determining which nonbank financial institutions should be designated by the Financial Stability Oversight Council (FSOC) as systemically important financial institutions (SIFIs). For example, the bill would increase the frequency and complexity of studies, reviews, and meetings that must be completed before the FSOC can designate a nonbank company as a SIFI. The bill also would allow companies to contest prior designations on the basis of the new criteria and procedures.

CBO estimates that enacting H.R. 4061 would increase net direct spending by $29 million and reduce revenues by $5 million over the 2019-2027 period. CBO estimates that, on net, budget deficits would increase by $34 million over the 2018-2027 period. Because enacting H.R. 4061 would affect direct spending and revenues, pay-as-you-go procedures apply. CBO also estimates that implementing the bill would cost $1 million over the 2019-2022 period, subject to the availability of appropriated funds.

CBO estimates that enacting H.R. 4061 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. 4061 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

If the FSOC, the Federal Housing Finance Agency (FHFA), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), or the Securities and Exchange Commission (SEC) raises the fees they charge to offset the costs associated with implementing the bill, H.R. 4061 would increase the cost of an existing mandate on private entities required to pay those fees. Using information from the affected agencies, CBO estimates that the incremental cost of the mandate would be small. CBO estimates that the incremental cost of the mandate would fall 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. 4061 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2019-2022	2019-2027
INCREASES IN DIRECT SPENDING											
Additional Costs to Resolve Nonbank Financial Institutions											
Estimated Budget Authority	0	0	0	0	1	3	4	4	4	0	16
Estimated Outlays	0	0	0	0	1	3	4	4	4	0	16
Administrative Costs to Financial Regulators											
Estimated Budget Authority	1	1	1	1	1	2	2	2	2	5	13
Estimated Outlays	1	1	1	1	1	2	2	2	2	5	13
Total											
Estimated Budget Authority	1	1	1	1	2	5	6	6	6	5	29
Estimated Outlays	1	1	1	1	2	5	6	6	6	5	29
DECREASES IN REVENUES											
Estimated Revenues	*	-1	-1	-1	-1	-1	-1	-1	*	-2	-5
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES											
Effect on the Deficit	1	2	2	2	3	6	6	6	6	7	34
INCREASES IN SPENDING SUBJECT TO APPROPRIATION											
Estimated Net Authorization Level	*	*	*	*	*	*	*	*	*	1	3
Estimated Outlays	*	*	*	*	*	*	*	*	*	1	3

Components may not sum to totals because of rounding; * = between -$500,000 and $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4061 will be enacted late in 2018. Estimated spending is based on historical patterns for similar regulatory activities. The budgetary effects of the legislation would stem from increased administrative costs to the federal financial regulators and additional costs to resolve certain financial institutions.

Background

Under current law, the voting membership of the FSOC consists of one independent member with insurance expertise and the heads of nine federal agencies—the FHFA, NCUA, OCC, SEC, the Consumer Financial Protection Bureau (CFPB), the Commodity Futures Trading Commission (CFTC), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve System, and the Department of the Treasury.

The operating costs for six of those banking regulators (the CFPB, FDIC, FHFA, FSOC, NCUA, and OCC) are classified as direct spending. All of those agencies except the CFPB collect fees to offset their operating costs. Because of lags between the time that costs are incurred and fees are imposed, not all additional costs resulting from the bill would be recovered within the next 10 years. Costs incurred by the Federal Reserve would reduce remittances to the Treasury (such remittances are recorded as revenues). Any costs for the CFTC, SEC, and the Treasury are subject to the availability of annual appropriations. However, the SEC is authorized under current law to collect fees sufficient to offset its annual appropriation, and CBO estimates that the net costs to the SEC would be negligible, assuming appropriation actions consistent with that authority.

Additional Costs to the FDIC to Resolve Failed Financial Institutions

Under current law, nonbank SIFIs may be subject to what is known as enhanced prudential regulation by the Board of Governors of the Federal Reserve. Using information from national credit-rating agencies and other experts, CBO concludes that standards similar to those imposed on banking institutions improve the safety and soundness of the affected institutions. CBO estimates that such regulation lowers the FDIC's cost of resolving insolvent institutions through the Orderly Liquidation Fund (OLF), primarily because those measures should result in shareholders' and other creditors' absorbing a larger share of any losses in the event of insolvency.

Although only one nonbank institution is currently classified as a SIFI, CBO anticipates that others may be designated in the future as a result of FSOC's ongoing assessments of such companies.[1] Based on the scope of past oversight of nonbank SIFIs, CBO projects that under current law, the enhanced prudential regulation of such companies will reduce the net deficit over the 2019-2027 period by about $60 million, less than one-half of one percent of CBO's projected cost of the OLF over that period.

Based on recent trends in the pace of FSOC's review of nonbank institutions, CBO anticipates that implementing the bill would roughly double the time needed to review and possibly approve any new designations. For this estimate, CBO assumes that such delays would result in a corresponding reduction in the assets of nonbank companies subject to enhanced prudential regulation relative to current law, resulting in a net increase in the deficit of $15 million over the 2019-2027 period. That estimate reflects an increase in direct spending of $16 million and an increase in revenues of $1 million from fees paid by large financial institutions to offset costs incurred by the OLF. Most of the costs incurred in the 10-year period would be offset by fees collected after 2027.

Additional Administrative Costs

Compared with current procedures, H.R. 4061 would increase the frequency and complexity of studies, reviews, and meetings that must be completed for the FSOC to complete the designation process for nonbank financial institutions. CBO estimates an increase in work for the FSOC and other financial regulators that are charged with designating SIFIs. Using information from the affected financial regulators, CBO expects that the FSOC and federal financial regulators would need to hire about 15 additional employees (with average annual costs of around $225,000 each) to comply with the requirements of the bill. CBO expects that those employees would primarily be at agencies with direct spending authority, although some could work for agencies whose spending is subject to appropriation.

In total, CBO estimates that enacting the administrative provisions of H.R. 4061 would cost $35 million over the 2019-2027 period to conduct the expanded review and designation process. Of those costs:

- $26 million would be for direct spending agencies and would be offset by $13 million in fees,
- $6 million would result from reduced remittances by the Federal Reserve, and
- $3 million would be for agencies with spending subject to annual appropriations.

1. In 2014, four nonbank institutions were designated as SIFIs. By the end of fiscal year 2017, two of those companies had reduced the size of their operations and risks, resulting in a rescission of their designation. The status of a third firm is under judicial review. As a result, only one nonbank financial company currently is being regulated as a SIFI. See Standard & Poor's, *"Nonbank SIFI," a Currently Symbolic Designation, Is Down to One Designee* (October 2017).

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. 4061, the Financial Stability Oversight Council Improvement Act of 2017, as ordered reported by the House Committee on Financial Services on January 18, 2018

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
	NET INCREASE IN THE DEFICIT											
Statutory Pay-As-You-Go Impact	0	1	2	2	2	3	6	6	6	6	7	34
Memorandum:												
Changes in Outlays	0	1	1	1	1	2	5	6	6	6	5	29
Changes in Revenues	0	0	-1	-1	-1	-1	-1	-1	-1	0	-2	-5

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 4061 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

If the FHFA, FSOC, NCUA, OCC, or SEC increased fees to offset the costs associated with implementing the bill, H.R. 4061 would increase the cost of an existing mandate on private entities required to pay those fees. Using information from the affected agencies, CBO estimates that the incremental cost of the mandate would fall well below the annual threshold for private-sector mandates established in UMRA ($156 million in 2017, adjusted annually for inflation).

The bill contains no intergovernmental mandates as defined in UMRA.

ESTIMATE PREPARED BY

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