S. 3217
Restoring American Financial Stability Act of 2010

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on March 22, 2010

SUMMARY

S. 3217 would grant new federal regulatory powers and reassign existing regulatory authority among federal agencies with the aim of reducing the likelihood and severity of financial crises.

The legislation would establish a program to facilitate the resolution of large financial institutions that become insolvent or are in danger of becoming insolvent when their failure is determined to threaten the stability of the nation’s financial system (such institutions are known as systemically important firms). The program would be funded by fees assessed on certain large financial companies; an Orderly Liquidation Fund (OLF) of $50 billion would be accumulated, and in the event of a costly resolution, the fund would be replenished over time with future assessments.

A second new program would expand the authority of the Federal Deposit Insurance Corporation (FDIC) to provide government guarantees on a broad array of financial obligations of banks and bank holding companies if federal officials determine that market conditions are impeding the normal provision of financing to creditworthy borrowers (known as a liquidity crisis). Under the bill, participants in the program would be charged fees designed to recover the costs of the government guarantees.

Other provisions of S. 3217 would change how financial institutions and securities markets are regulated, create a new Bureau of Consumer Financial Protection (BCFP), broaden the authority of the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC), establish a grant program to encourage the use of traditional banking services, expand the supervision of firms that settle payments between financial institutions, and make many other changes to current laws.
Under the legislation, as under current law, there is some probability that, at some point in the future, large financial firms will become insolvent and liquidity crises will arise, and that those financial problems will present significant risks to the nation’s broader economy. The cost of addressing those problems under current law is unknown and would depend on how the Administration and the Congress chose to proceed when faced with financial crises in the future; they could, for example, change laws, create new programs, appropriate additional funds, and assess new fees. Depending on the effectiveness of the new regulatory initiatives and new authorities to resolve and support a broad variety of financial institutions contained in S. 3217, enacting this legislation could change the timing, severity, and federal cost of averting and resolving future financial crises. However, CBO has not determined whether the estimated costs under the bill would be smaller or larger than the costs of alternative approaches to addressing future financial crises and the risks they pose to the economy as a whole.

**Estimated Federal Budgetary Impacts**

CBO estimates that enacting S. 3217 would increase revenues by $32.4 billion over the 2011-2015 period and by $75.4 billion over the 2011-2020 period and increase direct spending by $25.8 billion and $54.4 billion, respectively, over the same periods. In total, CBO estimates those changes would decrease budget deficits by $6.6 billion over the 2011-2015 period and by $21.0 billion over the 2011-2020 period. In addition, CBO estimates that implementing the bill would increase spending subject to appropriation by $4.6 billion over the 2011-2015 period and $13.2 billion over the 2011-2020 period. Because enacting the legislation would affect direct spending and revenues, pay-as-you-go procedures apply.

Under S. 3217, the estimated reduction in budget deficits over the 2011-2020 period stems largely from industry assessments required to capitalize the OLF established by the bill to resolve systemically important firms. Those collections exceed the expected cost of liquidations during the capitalization period. After that time, a growing share of the budgetary resources for future liquidation activities would be derived from interest credited on balances in the OLF (with additional assessments collected only as needed to cover losses). Such intragovernmental interest payments are not budgetary receipts and do not affect the federal deficit. Thus, CBO estimates that the expenses of the OLF would ultimately exceed income from new assessments paid by financial firms, resulting in an increase in the deficit in those later years. Pursuant to section 311 of the Concurrent Resolution on the Budget for Fiscal Year 2009 (S. Con Res. 70), CBO estimates that the bill would increase projected deficits by more than $5 billion in at least one of the four consecutive 10-year periods starting in 2021.
Mandates

The bill would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on banks and other private and public entities that participate in financial markets. The bill also would impose intergovernmental mandates by prohibiting states from taxing and regulating certain insurance products issued by companies based in other states and by preempts certain state laws. Because the costs of complying with some of the mandates would depend on future regulations that would be established under the bill, and because CBO has limited information about the extent to which public entities enter into swaps with unregulated entities, CBO cannot determine whether the aggregate costs of the intergovernmental mandates would exceed the annual threshold established in UMRA ($70 million in 2010, adjusted annually for inflation). However, CBO estimates that the cost of the mandates on private-sector entities would well exceed the annual threshold established in UMRA for such mandates ($141 million in 2010, adjusted annually for inflation) because the amount of fees collected would be more than that amount.

PAGE REFERENCE GUIDE

Sections
Major Provisions ................................................................. 4
Estimated Costs to the Federal Government ...................... 5
Basis of Estimate ............................................................... 5
   Changes in Direct Spending and Revenues ..................... 6
   Changes in Spending Subject to Appropriation .............. 17
Pay-As-You-Go Considerations ........................................ 20
Intergovernmental and Private-Sector Impact .................. 20

ABBREVIATIONS USED IN THE COST ESTIMATE

BCFP – Bureau of Consumer Financial Protection
CFTC – Commodity Futures Trading Commission
DIF – Deposit Insurance Fund
FDIC – Federal Deposit Insurance Corporation
FSOC – Financial Stability Oversight Council
GAO – Government Accountability Office
OCC – Office of the Comptroller of the Currency
OFR – Office of Financial Research
OLF – Orderly Liquidation Fund
OTS – Office of Thrift Supervision
PCAOB – Public Company Accounting Oversight Board
SEC – Securities and Exchange Commission
SIPC – Securities Investor Protection Corporation
MAJOR PROVISIONS

Title I would establish the Financial Stability Oversight Council and the Office of Financial Research (OFR), both of which would be funded by assessments on certain financial and nonfinancial entities starting two years after the bill’s enactment. For the first two years after enactment, the Federal Reserve would fund those activities.

Title II would establish a new program for resolving certain financial firms that are insolvent or in danger of becoming insolvent. The bill would create a fund, the OLF, from which the costs of liquidation would be paid. The FDIC would be directed to assess fees on private firms to build a $50 billion balance in the OLF within 10 years of the bill’s enactment.

Title III would abolish the Office of Thrift Supervision (OTS) and change the regulatory oversight of banks, thrifts, and related holding companies by transferring authorities and employees among the remaining regulatory agencies.

Titles IV, VII, and IX would change and broaden the authority of the SEC to oversee activities and entities associated with the national securities exchanges.

Title V would establish an Office of National Insurance and set national standards for how states may regulate and collect taxes for a type of insurance that covers unique or atypical risks—known as “surplus lines” or “nonadmitted insurance.” The bill also would establish national standards for how states regulate reinsurance—often referred to as insurance for insurance companies.

Titles VI would modify the regulation of bank, thrift, and securities holding companies.

Title VII would change and broaden the authority of the CFTC to regulate certain derivatives transactions on over-the-counter markets.

Title VIII would broaden the supervision of certain firms that settle payments between financial institutions.

Title X would establish the BCFP as an independent agency within the Federal Reserve to enforce federal laws that affect how banks and nonfinancial institutions make financial products available to consumers for their personal use. The BCFP would be funded by transfers from the Federal Reserve.

Title XI would establish a program to guarantee obligations of certain financial entities when federal officials determine that the economy faces a liquidity crisis. This title also would make changes to certain lending activities of the Federal Reserve.
Title XII would establish several grant programs to encourage certain individuals to increase their use of the federally insured banking system and community-based financial institutions.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3217 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit), 450 (community and regional development), and 800 (general government).

| TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 3217, THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010 |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| CHANGES IN DIRECT SPENDING | | | | | | | | | | | | |
| Estimated Budget Authority | 4.0 | 6.3 | 5.6 | 5.1 | 5.4 | 5.6 | 5.5 | 5.3 | 5.8 | 6.5 | 26.4 | 55.2 |
| Estimated Outlays | 3.6 | 6.3 | 5.4 | 5.1 | 5.4 | 5.6 | 5.5 | 5.3 | 5.8 | 6.5 | 25.8 | 54.4 |
| CHANGES IN REVENUES | | | | | | | | | | | | |
| Estimated Revenues | 1.8 | 6.4 | 7.9 | 8.0 | 8.3 | 8.5 | 8.8 | 8.9 | 8.7 | 8.1 | 32.4 | 75.4 |
| NET CHANGES IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES | | | | | | | | | | | | |
| Estimated Impact on Deficit a | 1.8 | -0.1 | -2.6 | -2.9 | -2.9 | -3.3 | -3.7 | -2.9 | -1.6 | -6.6 | -21.0 |
| CHANGES IN SPENDING SUBJECT TO APPROPRIATION | | | | | | | | | | | | |
| Estimated Authorization Level | 0.7 | 0.7 | 0.9 | 1.0 | 1.2 | 1.3 | 1.5 | 1.7 | 1.9 | 2.2 | 4.4 | 13.1 |
| Estimated Outlays | 0.8 | 0.7 | 0.9 | 1.0 | 1.2 | 1.3 | 1.5 | 1.7 | 1.9 | 2.2 | 4.6 | 13.2 |

a. Positive numbers indicate increases in deficits; negative numbers indicate decreases in deficits.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 3217 will be enacted before the end of fiscal year 2010, that the necessary amounts will be appropriated in each year, and that spending will follow historical patterns for activities of the FDIC, the Federal Reserve, and other agencies.
CBO estimates that the net decrease in the deficit as a result of the changes in revenues and direct spending would total $21.0 billion over the 2011-2020 period. Most of that amount, about $17.6 billion, would be generated by the assessments to build up the OLF and the spending of a portion of those funds.

About $4.9 billion of the net deficit decrease related to changes in direct spending and revenues would result from providing the SEC permanent authority to collect and spend certain fees and reclassifying discretionary spending and offsetting collections for the SEC as direct spending and revenues. Revenues from the fees would exceed the SEC’s outlays. (Under current law, the SEC’s authority to collect and spend fees is provided in annual appropriation acts; fee collections are recorded as offsetting collections, that is, a credit against the agency’s spending). Fees collected by the SEC have historically exceeded the agency’s spending; those excess collections currently offset discretionary spending in other areas of the budget. Consequently, changing the budgetary treatment of the SEC’s spending and receipts would increase discretionary spending by removing that offset. CBO estimates that such spending would increase by about $11.8 billion over the 2011-2020 period. The $4.9 billion in net savings from the change in direct spending and revenues would be less than the increase in discretionary outlays because the SEC fees under S. 3217 would be lower than those projected under current law.

**Changes in Direct Spending and Revenues**

CBO estimates that enacting the legislation would increase revenues by $75.4 billion over the 2011-2020 period (see Table 2). About $43.9 billion of those revenues would be generated by assessments imposed by the FDIC, with the remainder arising from other activities under the bill. Specifically:

- Several provisions of the bill, most importantly those establishing the BCFP and reassigning supervisory responsibilities over financial institutions among the various regulators, would increase the net earnings of the Federal Reserve, which are recorded in the budget as revenues.

- Reclassification of fees collected by the SEC also would increase revenues, as would additional fees collected by the Public Company Accounting Oversight Board (PCAOB) and the Securities Investor Protection Corporation (SIPC).

CBO estimates that enacting the legislation would increase direct spending by $54.4 billion over the 2011-2020 period (see Table 2). About $19.4 billion of that amount would result from allowing the SEC to spend certain fees without annual appropriation action. Additional costs would be incurred by establishing the BCFP, the Financial Stability Oversight Council, and the OFR; broadening the regulatory duties of the PCAOB; increasing the amount the SIPC may borrow from the Treasury; authorizing the FDIC to provide loan guarantees to financial institutions; and creating a program to make awards to individuals providing certain information to the SEC.
TABLE 2. NET CHANGES IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES UNDER THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010

By Fiscal Year, in Billions of Dollars

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>**NET CHANGES IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES **a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orderly Liquidation Authority</td>
<td>2.4</td>
<td>0.2</td>
<td>-2.1</td>
<td>-2.8</td>
<td>-2.7</td>
<td>-2.6</td>
<td>-2.9</td>
<td>-3.3</td>
<td>-2.5</td>
<td>-1.2</td>
<td>-5.0</td>
<td>-17.6</td>
</tr>
<tr>
<td>Securities and Exchange Commission Regulation</td>
<td>-0.7</td>
<td>-0.5</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-2.5</td>
<td>-4.9</td>
<td></td>
</tr>
<tr>
<td>Consumer Financial Protection</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>1.0</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Emergency Financial Stability</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Changes Among Financial Regulators</td>
<td>*</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.6</td>
<td>-0.6</td>
<td>-0.6</td>
<td>-1.5</td>
<td>-4.3</td>
<td></td>
</tr>
<tr>
<td>Other Financial Oversight and Protection</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.7</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Financial Stability Oversight</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Other Provisions Affecting the Federal Reserve</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Total Net Change in the Budget Deficit</td>
<td>1.8</td>
<td>-0.1</td>
<td>-2.6</td>
<td>-2.9</td>
<td>-2.9</td>
<td>-3.3</td>
<td>-3.7</td>
<td>-2.9</td>
<td>-1.6</td>
<td>-6.6</td>
<td>-21.0</td>
<td></td>
</tr>
</tbody>
</table>

**CHANGES IN REVENUES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Orderly Liquidation Authority b</td>
<td>0</td>
<td>4.2</td>
<td>5.2</td>
<td>5.1</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
<td>4.8</td>
<td>4.0</td>
<td>19.7</td>
</tr>
<tr>
<td>Securities and Exchange Commission Regulation</td>
<td>1.8</td>
<td>1.9</td>
<td>2.1</td>
<td>2.2</td>
<td>2.3</td>
<td>2.5</td>
<td>2.7</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
<td>10.3</td>
<td>24.4</td>
</tr>
<tr>
<td>Consumer Financial Protection</td>
<td>0</td>
<td>0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Changes Among Financial Regulators</td>
<td>0</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>1.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Other Financial Oversight and Protection</td>
<td>0</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Financial Stability Oversight</td>
<td>0</td>
<td>0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Other Provisions Affecting the Federal Reserve</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>* -0.1</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>1.8</td>
<td>6.4</td>
<td>7.9</td>
<td>8.0</td>
<td>8.3</td>
<td>8.5</td>
<td>8.8</td>
<td>8.9</td>
<td>8.7</td>
<td>8.1</td>
<td>32.4</td>
<td>75.4</td>
</tr>
</tbody>
</table>

Continued
### TABLE 2.  Continued

<table>
<thead>
<tr>
<th></th>
<th>By Fiscal Year, in Billions of Dollars</th>
<th>2011-2015</th>
<th>2011-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orderly Liquidation Authority</td>
<td>2.4</td>
<td>4.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>2.4</td>
<td>4.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Securities and Exchange</td>
<td>1.5</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Commission Regulation</td>
<td>1.1</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Consumer Financial Protection</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>*</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Emergency Financial Stability</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Changes Among Financial</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Regulators</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Other Financial Oversight and</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Protection</td>
<td>*</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Financial Stability Oversight</td>
<td>*</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Estimats Outlays</td>
<td>*</td>
<td>*</td>
<td>0.1</td>
</tr>
<tr>
<td>Total Changes in Direct</td>
<td>4.0</td>
<td>6.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Spending</td>
<td>3.6</td>
<td>6.3</td>
<td>5.4</td>
</tr>
</tbody>
</table>

**Note:** *= between -$50 million and $50 million. Components may not sum to totals because of rounding.

a. Positive numbers indicate increases in deficits; negative numbers indicate decreases in deficits.

b. The legislation could affect federal tax receipts under the Internal Revenue Code. However, there are a number of uncertainties regarding potential effects of the use of a bridge financial company by the Federal Deposit Insurance Corporation on the tax attributes of a failed financial institution. It is not possible to determine whether the use of a bridge financial company would provide a tax result that is more or less favorable than bankruptcy, which is the current-law alternative. Therefore, the staff of the Joint Committee on Taxation is not currently able to estimate the changes in tax revenue that would result from this provision of the bill.
Orderly Liquidation Authority

Title II would create new government mechanisms for liquidating systemically important financial firms that are in default or in danger of default. CBO estimates that implementing those provisions would, on balance, reduce the deficit by $17.6 billion over the 2011-2020 period.

Under conditions outlined in the bill, the FDIC would be authorized to enter into various arrangements necessary to liquidate such firms, including organizing bridge banks that would be exempt from federal and state taxation. Funding for those transactions would come from an Orderly Liquidation Fund (OLF) established by the legislation and built up from compulsory assessments paid by private firms (which would be classified as revenues) and interest earned on fund balances (which would be invested in Treasury securities). If fund balances were insufficient to finance transactions that the FDIC deemed appropriate, necessary amounts would be borrowed from the Treasury up to a specified amount. Amounts borrowed would be based on a formula tied to the value of the assets of the liquidated firms and would be repaid through future assessments.

The bill would direct the FDIC to assess upfront fees sufficient to establish the OLF at the level of $50 billion within 10 years after enactment but would allow the agency to extend that deadline if any losses to the fund are incurred during that period. The size of the fund would be adjusted periodically for inflation.

CBO’s estimate of the cost of the resolution authorities provided under the bill represents the difference between the expected values of spending by the OLF to resolve insolvent firms and assessments collected by the OLF. Those expected values represent a weighted average of various scenarios regarding the potential frequency and magnitude of systemic financial problems. Although the estimate reflects CBO’s best judgment on the basis of historical experience, the cost of the program would depend on future economic and financial events that are inherently unpredictable. Moreover, the timing of the cash flows associated with resolving insolvent firms is also difficult to predict. It might take several years, for example, to replenish the funds spent to liquidate a complex financial institution. As a result, some of the proceeds from asset sales or cost-recovery fees related to financial problems emerging in any 10-year period might be collected beyond that period. All told, actual spending and assessments in each year would probably vary significantly from the estimated amounts—either higher or lower than the expected-value estimate provided for each year.

Although the probability that the federal government would have to liquidate a financial institution in any year is small, the potential costs of such a liquidation could be large. Measured on an expected-value basis, CBO estimates that net direct spending for potential liquidation activities, which includes recoveries from the sale of assets acquired from liquidated institutions but excludes revenues from assessments, would be $26.3 billion through 2020. As a result, the expected time frame for fully capitalizing the fund is longer than 10 years. CBO’s estimate of assessments reflects the effects of the
interest earnings of the OLF (an estimated $7 billion), which would reduce the amount that firms would have to pay to capitalize the fund, and assumes that the FDIC would adjust the size of the fund every year to account for inflation. CBO estimates that revenues from assessments paid to capitalize the fund and cover any losses would total about $44 billion through 2020, net of effects on payroll and income taxes. Under CBO’s estimate, the OLF would have a balance of about $45 billion at the end of 2020, including the value of assets acquired in the course of liquidating financial institutions.

**Securities and Exchange Commission Regulation**

Titles IV, VII, and IX would change and expand the regulatory activities of the SEC. The bill also would grant that agency permanent authority to collect and spend certain fees; under current law, this authority is provided in annual appropriation acts. Based on information from the agency, CBO estimates that enacting those provisions would increase direct spending by $19.4 billion over the 2011-2020 period. Of that amount, CBO estimates that $16.9 billion would support the agency’s current activities. The balance, $2.5 billion, would be incurred to carry out the new and expanded authorities under the bill. CBO estimates that enacting the provisions also would increase revenues by $24.4 billion over the 2011-2020 period. Taken together, CBO estimates that the provisions would decrease deficits by $4.9 billion over the 2011-2020 period.

Most of that decrease in the deficit—about $4.3 billion—would be from fees collected that would be unavailable to the agency for spending. The reduction in budget deficits from changes in direct spending and revenues would probably be accompanied by increases in discretionary spending, as discussed later in this estimate.

**Reclassification of Fees.** Under the bill, the SEC’s authority to collect fees would be permanent rather than being provided through annual appropriation action as is the case under current law. The bill would authorize the SEC to assess fees for securities trading activities sufficient to cover the agency’s annual operating expenses, plus an additional amount to maintain a reserve that would be limited to 25 percent of the following year’s budget. The bill also would authorize the SEC to collect fees to register securities in amounts sufficient to meet targets set in the legislation. Those collections would be recorded in the budget as revenues; amounts collected by the SEC that exceed annual spending limits plus the reserve amount would not be available for the agency to spend. CBO assumes that the agency would set fees at levels sufficient to meet its budgetary, statutory, and reserve requirements each year.

---

1. The total amount collected from assessments is estimated to be about $58 billion through 2020. But such assessments would become an additional business expense for companies required to pay them. Those additional expenses would result in decreases in taxable income somewhere in the economy, which would produce a loss of government revenue from income and payroll taxes that would partially offset the revenue collected from the assessment itself.
**Additional Regulatory Authority.** The bill also would broaden the SEC’s authority to regulate activities and entities associated with the securities markets. Among other things, the bill would require advisers to private funds and organizations that trade in or facilitate certain derivatives transactions to register with the SEC, and it would broaden the SEC’s oversight of credit rating agencies and advisers for municipal issues. CBO estimates that those additional activities would cost about $2.5 billion over the 10-year period. CBO estimates that more than 800 staff positions would be added over several years to meet the agency’s additional regulatory authority (a 22 percent increase over current staffing levels). This estimate assumes that the SEC generally would follow its regular examination cycle and established examination procedures for regulating advisers to private funds.

**Consumer Financial Protection**

Title X would establish the Bureau of Consumer Financial Protection as an autonomous entity within the Federal Reserve. The bureau would enforce federal laws related to consumer financial protection by establishing rules and issuing orders and guidance. CBO estimates that creating the BCFP would increase budget deficits by $3.2 billion over the 2011-2020 period.

The bureau would be authorized to:

- Examine and regulate insured depository institutions and credit unions with more than $10 billion in assets;

- Request reports from insured depository institutions and credit unions with $10 billion in assets or less, and participate in the examinations performed by the regulators of those institutions; and

- Supervise large nondepository institutions, mortgage lenders, brokers, and financial service providers.

The bureau would coordinate examinations with other federal or state regulators of the institutions. Similar functions and the personnel who now perform those duties at federal agencies and the Federal Reserve would be transferred to the new bureau.

The bill would require the Board of Governors of the Federal Reserve to fund the BCFP through transfers from the earnings of the Federal Reserve. The amounts transferred would be limited to a percentage, starting at 10 percent in 2011 and increasing to 12 percent in 2013 and thereafter, of the 2009 total operating expenses of the Federal Reserve, adjusted annually for inflation. In CBO’s judgment, the costs of the BCFP should be reported as expenditures in the federal budget (rather than a reduction in revenues) because the BCFP would be independent of the Federal Reserve and its
activities would be separate and distinct from the Federal Reserve’s responsibilities for monetary policy and financial regulation. Therefore, CBO estimates that the provisions of title X would increase direct spending by $4.5 billion over the 2011-2020 period. That estimate is based on the Federal Reserve’s reported 2008 operating expenses, the most recent information available.

Based on information from the Federal Reserve, CBO estimates that about 515 staff positions would be transferred from the Federal Reserve to the BCFP to carry out the new regulatory authorities. CBO estimates that this transfer of staff would reduce the Federal Reserve’s operating expenses by $1.2 billion over the 2011-2020 period, increasing remittances from the Federal Reserve to the Treasury (which are recorded in the federal budget as revenues) by that amount.

**Emergency Financial Stability**

In 2008, the FDIC established a temporary program to guarantee certain obligations of insured depository institutions, holding companies that include insured depository institutions, and some affiliates of those firms. (The program remains open to some new participants, and significant potential liabilities remain from existing participants.) Participants pay an upfront fee set to offset expected losses, and any shortfall will be recovered through an assessment on all FDIC-insured institutions. Conversely, in the event that any excess fees are collected, those amounts will revert to the Deposit Insurance Fund (DIF) and may be spent or used to reduce future deposit insurance premiums. The program provides two types of guarantees: one program, which expires in December 2012, is for newly issued, senior unsecured debt, and the other, which expires in December 2010, is for amounts in certain non-interest-bearing accounts.

Title XI would provide a new statutory framework for similar, but potentially much broader, assistance. Under the bill, the FDIC would be authorized to establish a guarantee program if the Federal Reserve, the Secretary of the Treasury, and the FDIC determine that a liquidity crisis warrants use of such authority. Although the types of firms eligible to participate would be similar to those eligible under the existing FDIC program, the bill would not limit the types or duration of financial obligations that could be guaranteed. Firms still would be required to pay an upfront fee for the guarantees, but any shortfall would be recovered solely from program participants rather than all FDIC-insured institutions. In addition, any excess fees would be deposited in the U.S. Treasury and would not be available to be spent.

CBO’s estimate of the cost of those provisions reflects the expected value of the costs of such guarantees relative to the expected value of the costs that would be incurred under current law. CBO expects that, in the absence of this legislation, the FDIC would respond to any future liquidity crises by implementing guarantee programs similar to those it adopted in 2008. The costs of this program, like those that would result from
implementing the liquidation authorities in title II, would depend on circumstances that are difficult to predict. In addition, cash flows over the 10-year period would depend, as for title II, on the lag between potential spending for losses and the collection of fees to offset those costs. Therefore, while this estimate reflects CBO’s best judgment regarding expected costs, the actual costs would probably vary significantly from the amount estimated for any given year.

Based on historical experience, we expect that the probability of systemic liquidity problems in any year is small. In the event of liquidity crises, however, the legislation would authorize the FDIC to take a broader range of actions that could generate losses that would take some time to recover. In particular, CBO expects that limiting the recourse for cost-recovery fees to program participants would cause the FDIC to recoup losses over a long period of time to avoid placing large burdens on a small set of firms. Altogether, CBO estimates that enacting those provisions would increase net direct spending by $0.8 billion over the 2011-2020 period relative to current law.

Changes Among Financial Regulators

Title III would change the regulatory regime for supervising banks, thrifts, and related holding companies. It would abolish the Office of Thrift Supervision (OTS) and reduce the number of firms regulated by the Federal Reserve. Supervision of firms with consolidated assets of less than $50 billion that currently are regulated by the OTS and the Federal Reserve would be transferred to the Office of the Comptroller of the Currency (OCC) or the FDIC, depending on each firm’s charter. The Federal Reserve would continue regulating bank holding companies with assets totaling above $50 billion and also would supervise thrift holding companies exceeding that threshold. Other provisions would direct agencies to complete the transition within 18 months after enactment; authorize spending of unobligated balances held by the OTS for transition and other costs; and allow the OCC to enter into agreements without regard to existing laws governing the disposition of real or personal property. Finally, the bill would require all of those agencies, including the Federal Reserve, to charge fees to cover supervisory expenses.

CBO estimates that implementing those provisions would reduce the deficit by an estimated $4.3 billion over the next 10 years. CBO expects that changes in costs that would result from transferring personnel among the banking agencies would have no net budgetary impact because they would be offset by corresponding changes in the amounts collected from regulated institutions. The net budgetary impact of this title would result from:

- Collecting fees from firms currently regulated by the Federal Reserve, which CBO estimates would average about $500 million a year or a total of $4.6 billion over the 2011-2020 period;
• Spending of the unobligated balances held by the OTS over the 2011-2020 period, which CBO estimates would total about $150 million, net of certain existing liabilities; and

• Financing the acquisition of buildings and other property for OCC operations, which CBO estimates would result in a net increase in direct spending of $150 million over the next 10 years.

This title would change direct spending and revenues because of the way banking agencies are funded. Under current law, costs incurred by the OCC, OTS, and FDIC are recorded in the budget as direct spending and are offset by receipts from annual fees or insurance premiums. The budgetary effects of the Federal Reserve’s activities are recorded as changes in revenues (governmental receipts). After accounting for changes in agency workloads and the implementation of new supervisory fees, CBO estimates that most of the budgetary impact of those changes would be recorded in the budget as an increase in revenues.

Other Financial Oversight and Protections

The bill would change the authorities of the PCAOB and SIPC, which provide oversight and various protections in the financial markets. The bill also would establish a program to give awards to individuals who provide information to the SEC about violations of securities laws. CBO estimates that taken together, those provisions would increase budget deficits by $1.3 billion over the 2011-2020 period.

In particular, the bill would establish a whistleblower program at the SEC that would award a portion of penalties collected in certain proceedings brought for violation of securities laws to individuals providing information leading to the imposition of the penalties. Based on information from the SEC, CBO estimates that this program would cost about $100 million per year once the regulations are in place. We estimate that enacting the award program would increase direct spending by $0.9 billion over the 2011-2020 period.

The bill would expand the authority of the PCAOB to oversee the auditors of brokers and dealers that are registered with the SEC; those provisions also would increase fees collected by the PCAOB to support examination activities. Based on information from the PCAOB, CBO estimates that the additional oversight and examination requirements would increase the agency’s costs by about $25 million per year and that the agency would increase fees charged to brokers and dealers to cover those additional costs. CBO estimates that enacting the PCAOB provisions would increase direct spending by $0.2 billion over the 2011-2020 period and increase revenues, net of income and payroll
tax offsets, by a similar amount over the same period. The net effect on the deficit as a result of the PCAOB provisions would be less than $0.1 billion.

The bill would raise the amount that SIPC would be authorized to borrow from the Treasury. Under current law, SIPC makes payments from fee collections and reserves to investors that are harmed when a brokerage firm fails and customers’ assets are missing. In the event collections and reserves are insufficient to cover the losses, SIPC is authorized to borrow up to $1 billion from the Treasury; the bill would raise that borrowing limit to $2.5 billion. SIPC would repay any amounts borrowed by raising fees paid by brokers and dealers that are registered with the SEC; such fees are recorded in the budget as revenues.

Based on information from SIPC, CBO estimates that the agency would probably exercise some of the additional borrowing authority provided in this title during the next 10 years. We estimate that borrowing additional funds would increase direct spending by about $1.0 billion over the 2011-2020 period. Further, we estimate that SIPC would recover that cost by raising fees, thus increasing revenues over the same period by $0.7 billion; CBO estimates that the net effect of this provision would be to raise budget deficits by $0.3 billion over the 2011-2020 period.

Financial Stability Oversight

Title I would establish a new council and office in the Department of the Treasury to oversee the financial markets. The Financial Stability Oversight Council, led by the Secretary of the Treasury, would be responsible for identifying risks to the financial stability of the United States, facilitating information sharing and setting oversight priorities among regulators, and potentially directing the Federal Reserve to supervise additional financial institutions that it does not currently regulate. The council would rely upon the OFR, also established in the bill, to collect information on financial markets and to provide independent research.

Based on amounts spent by other councils and agencies that provide similar levels of analysis and support, CBO estimates that those new functions would cost about $75 million annually. We expect that the office would steadily expand its staff and budget over a three- to four-year period before it reached that level of effort. We estimate that those functions would cost $0.3 billion over the 2011-2015 period and $0.7 billion over the 2011-2020 period.

Title I also would allow the OFR to enter into enhanced-use lease arrangements with nonfederal partners to acquire new facilities. Based on the experience of other agencies with similar authorities, CBO expects that such leases would involve significant federal commitments. We estimate that the OFR would use its enhanced-use leasing authorities to build one general-purpose office building at a net cost of $0.2 billion over the
2011-2015 and 2011-2020 periods. CBO expects that the remaining construction costs would be covered by fee collections after 2020.

To fund the OFR and the council, the legislation would establish a Financial Research Fund within the Treasury. For the first two years after enactment, the costs of the council and the OFR would be paid by the Federal Reserve. In CBO’s judgment, those costs should be recorded as expenditures in the federal budget because, like the BCFP, the council and the OFR would be independent of the Federal Reserve and their activities would be distinct from the Federal Reserve’s responsibilities for monetary policy and financial regulation. Starting in 2013, the Secretary of the Treasury would collect an assessment from certain bank holding companies and nonbank financial companies supervised by the Federal Reserve that would be sufficient to cover the operating expenses of the OFR and the council.

CBO estimates that collecting the assessment, net of income and payroll tax offsets, would increase revenues by $0.2 billion over the 2011-2015 period and $0.5 billion over the 2011-2020 period. On balance, we estimate that enacting title I would increase budget deficits by $0.3 billion over the 2011-2015 period and $0.4 billion over the 2011-2020 period.

**Other Provisions Affecting the Federal Reserve**

CBO estimates that the requirements in a number of titles would result in incremental costs to the Federal Reserve, thereby reducing remittances to the Treasury (which are recorded in the budget as revenues). Based on information from the Federal Reserve, CBO estimates that those provisions would reduce revenues by about $0.1 billion over the 2011-2020 period. CBO expects the costs under title I to occur only in the first few years; in all other cases, the costs are expected to be ongoing. The key provisions of this sort are:

- The Chairman of the Board of Governors would be a member of the Financial Stability Oversight Council, and Federal Reserve staff could be assigned to support the work of the council.

- Under title VI, the Federal Reserve would incur costs to supervise any qualifying securities holding companies that elect to be supervised by the Federal Reserve. Additionally, the Federal Reserve would develop, in conjunction with other federal banking agencies, the regulations to implement restrictions regarding investments by banking organizations in private equity funds and hedge funds and the proprietary trading activities of banking organizations.
• Title VII would expand the rule-making requirements for the Federal Reserve related to capital and margin requirements for swap dealers and major swap participants that are banks.

• Title VIII would likely increase the workload of the Federal Reserve to supervise systemically important entities that are involved in settling payments between financial institutions.

Changes in Spending Subject to Appropriation

CBO estimates that implementing the legislation would increase spending subject to appropriation by about $4.6 billion over the 2011-2015 period (see Table 3). Most of this additional spending would result from the proposed reclassification of fees and spending by the SEC, leading to a reduction in discretionary spending by the SEC and a greater reduction in discretionary offsetting collections from SEC fees.

Reclassification of SEC Fees and Spending

Enacting the bill would change the budgetary classification of fees collected by the SEC from offsetting collections (amounts netted against discretionary appropriations) to revenues. In addition, because the legislation would authorize the SEC to spend all the fees it collects without further appropriation, the need to appropriate funds for the SEC’s operations would be eliminated. Historically, fees collected by the SEC have exceeded the agency’s authorized spending limits.

CBO estimates that the proposed reclassification of fees and spending would reduce discretionary spending by $5.7 billion over the 2011-2015 period and reduce offsetting collections by $9.6 billion over the same period. Taken together, those reductions would increase net spending subject to appropriation by about $4.0 billion over the 2011-2015 period and by $11.8 billion over the 2011-2020 period because the reduction in amounts that offset spending would exceed the reduction in authorized spending levels. (As described on page 10, the new permanent authority to levy fees and spend the proceeds would decrease deficits by an estimated $2.5 billion over the 2011-2015 period and by $4.9 billion over the 2011-2020 period.)
TABLE 3. CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reclassification of SEC Fees and Spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>-1,117</td>
<td>-1,139</td>
<td>-1,167</td>
<td>-1,198</td>
<td>-1,233</td>
<td>-5,854</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>-949</td>
<td>-1,136</td>
<td>-1,163</td>
<td>-1,193</td>
<td>-1,228</td>
<td>-5,669</td>
</tr>
<tr>
<td>Offsetting Collections</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>1,733</td>
<td>1,733</td>
<td>1,885</td>
<td>2,052</td>
<td>2,235</td>
<td>9,638</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>1,733</td>
<td>1,733</td>
<td>1,885</td>
<td>2,052</td>
<td>2,235</td>
<td>9,638</td>
</tr>
<tr>
<td>Total Reclassification of SEC Fees and Spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>616</td>
<td>594</td>
<td>718</td>
<td>854</td>
<td>1,002</td>
<td>3,784</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>784</td>
<td>597</td>
<td>722</td>
<td>859</td>
<td>1,007</td>
<td>3,969</td>
</tr>
<tr>
<td>Regulation of Over-the-Counter Derivatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>18</td>
<td>55</td>
<td>75</td>
<td>76</td>
<td>77</td>
<td>301</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>16</td>
<td>51</td>
<td>73</td>
<td>76</td>
<td>77</td>
<td>293</td>
</tr>
<tr>
<td>Access to Mainstream Financial Institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>57</td>
<td>57</td>
<td>58</td>
<td>59</td>
<td>60</td>
<td>291</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>15</td>
<td>57</td>
<td>58</td>
<td>59</td>
<td>59</td>
<td>248</td>
</tr>
<tr>
<td>Federal Insurance Office</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Grants to Prevent Misleading Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Total Changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Authorization Level</td>
<td>709</td>
<td>719</td>
<td>862</td>
<td>1,000</td>
<td>1,150</td>
<td>4,440</td>
</tr>
<tr>
<td>Estimated Outlays</td>
<td>824</td>
<td>714</td>
<td>862</td>
<td>1,004</td>
<td>1,154</td>
<td>4,558</td>
</tr>
</tbody>
</table>

Note: Components may not sum to totals because of rounding.
Regulation of Over-the-Counter Derivatives

Title VII would require certain derivatives transactions to take place on registered exchanges and would place new registration and reporting requirements on entities that trade in or facilitate such transactions. This title would broaden the authority of the CFTC to regulate entities and activities related to those transactions.

Based on information from the CFTC, CBO estimates that implementing those broader authorities would cost $293 million over the 2011-2015 period, assuming appropriation of the necessary amounts. CBO estimates that the agency would add 235 employees by fiscal year 2013 to write regulations and to undertake the additional oversight and enforcement activities required under the bill. That would amount to a roughly 40 percent increase over 2010 staffing levels.

Access to Mainstream Financial Institutions

Title XII would authorize the appropriation of such sums as may be necessary to establish several programs aimed at increasing access to and usage of traditional banking services in lieu of alternative financial services such as nonbank money orders and check cashing, rent-to-own agreements, and payday lending. Based on pilot programs operated by the private sector and information collected by the FDIC, CBO estimates that this effort would cost $248 million over the 2011-2015 period, assuming appropriation of the necessary amounts.

Federal Insurance Office

Title V would establish the Federal Insurance Office within the Department of the Treasury to monitor the insurance industry and to coordinate federal policy on insurance issues. The bill also would authorize the Secretary of the Treasury to enter into international agreements to harmonize regulations on the insurance industry. Based on information from the Treasury, CBO estimates that implementing those provisions would cost $9 million over the 2011-2015 period, subject to the appropriation of the necessary amounts.

Grants to Prevent Misleading Marketing

Title IX would authorize the appropriation of $8 million in each of fiscal years 2011 through 2015 for grants to states to protect elderly citizens from misleading marketing of financial products. CBO estimates that implementing this provision would cost $26 million over the 2011-2015 period.
Reports

The bill would require the Government Accountability Office (GAO) to prepare more than 20 reports on a wide range of topics, including financial literacy, oversight of financial planners, and disclosures by issuers of municipal securities. The bill also would require GAO to audit the BCFP annually. Based on information from the agency, CBO estimates that each report would cost, on average, $500,000 and would be completed within the time allotted in the bill. CBO estimates that implementing the reporting provisions in the bill would cost $14 million over the 2011-2015 period, assuming appropriation of the necessary amounts.

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.

<table>
<thead>
<tr>
<th>NET INCREASE OR DECREASE (-) IN THE DEFICIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Pay-As-You-Go Impact a</td>
</tr>
</tbody>
</table>

a. Positive numbers indicate increases in deficits; negative numbers indicate decreases in deficits.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill would impose intergovernmental and private-sector mandates, as defined in UMRA, on banks and other private and public entities that participate in financial markets. The bill also would impose intergovernmental mandates by prohibiting states from taxing and regulating certain insurance products issued by companies based in other states and by preempts certain state laws. Because the costs of complying with some of the mandates would depend on future regulations that would be established under the bill, and because CBO has limited information about the extent to which public entities enter
into swaps with unregulated entities, CBO cannot determine whether the aggregate costs of the intergovernmental mandates would exceed the annual threshold established in UMRA ($70 million in 2010, adjusted annually for inflation). However, CBO estimates that the total amount of fees alone that would be collected from private entities would well exceed the annual threshold established in UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation).

Mandates that Apply to Both Intergovernmental and Private-Sector Entities

Some mandates in the bill would affect both public and private entities, including pension funds and public finance authorities. The cost of complying with the mandates is uncertain and would depend on the nature of future regulations and the range of entities subject to them.

Consumer Financial Protection. The bill would authorize the BCFP to regulate banks and credit unions with assets over $10 million, all mortgage-related businesses (housing finance agencies, lenders, servicers, mortgage brokers, and foreclosure operators), and all large nonbank financial companies (such as payday lenders, debt collectors, and consumer reporting agencies). The BCFP would enforce federal laws related to consumer protection by establishing rules and issuing orders and guidance. Bank and nonbank entities that offer financial services or products would be required to make disclosures to customers and submit information to the BCFP. The bill also would require certain financial institutions to maintain records regarding deposit accounts of customers and would prohibit prepayment penalties for residential mortgage loans.

Regulation of Over-the-Counter Derivatives Markets. The bill would impose several requirements on public and private entities such as pension funds, swap dealers, and other participants in derivatives markets. For example, the bill would place new requirements on derivatives; require reporting by entities that gather trading information about swaps, organizations that clear derivatives, facilities that execute swaps, pension funds, and swap dealers; and establish capital requirements for pension funds, swap dealers and major swap participants.

Regulation of Financial Securities. The bill would require entities (including public finance authorities) that sell products such as mortgage-backed securities to hold at least 5 percent of the credit risk of each asset that they securitize. Under the bill, the BCFP could exempt classes of assets from the retention requirement. The bill also would require issuers of securities to disclose information to the SEC about the underlying assets and to analyze the quality of those assets.
Mandates that Apply Only to Intergovernmental Entities

Prohibition on Investments by Small Public Entities. The bill would impose a mandate on public entities that invest more than $25 million but less than $50 million by prohibiting them from entering into swaps with entities that are not federally regulated. The costs of complying with this mandate would be equal to the difference between the cost of entering into a swap with an unregulated entity and the cost of entering into one with a regulated entity, but because CBO has limited information about the extent to which public entities enter into such arrangements, we have no basis for estimating the cost of complying with this mandate.

Prohibition on Taxation of Surplus Lines. The bill would establish national standards for how states may regulate, collect, and allocate taxes for a type of insurance that covers unique or atypical risks—known as surplus lines or nonadmitted insurance. The bill also would establish national standards for how states regulate reinsurance. As defined in UMRA, the direct costs of a mandate include any amounts that state and local governments would be prohibited from raising in revenues as a result of the mandate. The direct costs of this mandate would be the amount of taxes on premiums for surplus lines issued by out-of-state brokers that states would be precluded from collecting.

While there is some uncertainty surrounding the amount of tax that states currently collect, the portion of the surplus lines market that would be affected, and the flexibility available to states after enactment of the bill, CBO estimates that forgone revenues would total less than $50 million, annually, beginning one year after enactment. For the purpose of estimating the direct cost of the mandate, CBO considered the taxes that the industry estimates it is paying and the revenues that states, as a whole, would no longer be able to collect as a result of the bill.

Prohibition on Fees for Licensing Brokers. The bill would prohibit states from collecting licensing fees from brokers of surplus lines unless states participate in a national database of insurance brokers. CBO estimates that the costs of participating in the database would be small.

Regulation of Reinsurance. The bill would prohibit states other than the state where a reinsurer is incorporated and licensed from regulating the financial solvency of that reinsurer, if that state is accredited by the National Association of Insurance Commissioners. The bill also would limit the way states regulate insurers that purchase reinsurance. Those mandates would impose no direct costs on states.

Preemption of State Laws. The bill would preempt state laws that affect the offer, sale, or distribution of swaps as well as consumer protection and insurance laws. The preemptions would be mandates as defined in UMRA, but they would impose no duty on states that would result in additional spending.
Mandates that Apply Only to Private Entities

**Orderly Liquidation Fund.** Under the bill, the largest financial companies would be required to pay assessments totaling up to $50 billion into the OLF over the 10 years after the bill’s enactment. Those companies also would have to submit plans to regulators for how they could be liquidated in the event of a failure. Because of the target size of the fund, CBO estimates that the cost of complying with the mandates would greatly exceed the annual threshold for private-sector mandates in each of the first five years the mandate is in effect.

**Security and Exchange Commission Fees.** The bill would increase the amount of fees collected by the SEC, and such an increase would impose a mandate on participants in securities markets. The cost of the mandate would be the incremental increase in such fees compared to current law. CBO estimates that increase would total at least $650 million over the first five years that the mandate is in effect.

**Financial Stability Oversight.** The Financial Stability Oversight Council would have the authority to require the Federal Reserve to supervise nonbank companies that may pose risks to the financial stability of the United States. The council also would have the authority to require a large bank holding company that poses a risk to the financial stability of the United States to meet certain conditions and to terminate certain activities. In addition, the Federal Reserve would be required to establish standards for nonbank financial companies and large bank holding companies regarding capital and liquidity requirements, leverage and concentration limits, credit exposure, and remediation. The cost of complying with these mandates is uncertain and would depend on the details of future regulations.

Beginning two years after the bill’s enactment, certain bank holding companies and nonbank financial companies supervised by the Federal Reserve would be required to pay an assessment to the Secretary of the Treasury to cover the operating expenses of the Council and the Office of Financial Research. Based on information from the Treasury Department, CBO estimates that the cost of complying with the mandate would total about $70 million per year.

**Regulation of Certain Financial Companies.** The regulation of some financial companies (including some banks, thrifts, and related holding companies) would be transferred to different federal agencies, including the OCC and the FDIC. Companies that are currently regulated by the Federal Reserve would be required to pay new fees and meet the requirements of their new regulator. CBO estimates that the amount of additional fees paid by those companies would amount to about $500 million per year.

Federal regulators would be required to implement rules for banks, their affiliates and bank holding companies, and other financial companies to prohibit proprietary trading,
sponsoring, and investing in hedge funds and private equity funds, and limiting relationships with hedge funds and private equity funds. Because the requirements on such companies would depend on future rules and regulations, CBO cannot estimate the cost of complying with the mandates.

Companies supervised by the Federal Reserve also would be prohibited from voting for directors of the Federal Reserve Banks. CBO expects there would be no cost to comply with that mandate.

**Regulation of Financial Market Utilities.** The legislation would require persons who manage or carry out payment, clearing, and settlement activities among financial institutions to meet uniform standards that would be established by the Federal Reserve regarding the management of risks and clearing and settlement activities. The cost of complying with the standards would depend on those future regulations.

**Office of National Insurance.** The bill would require insurance companies to provide data and information to the Office of National Insurance, which would also have subpoena authority. The cost of the mandates would be small.

**Regulation of Securities Markets.** The bill would broaden the SEC’s authority to regulate entities and activities associated with securities markets.

*Regulation of Advisers to Hedge Funds.* The bill would require hedge fund advisers that manage over $100 million in assets to register with the SEC. According to industry experts, the expenses for those advisers to prepare for the registration process would probably average less than $30,000 per firm. Based on information from the SEC regarding the number of firms that could be affected by the requirement, CBO estimates that the cost of the mandate would fall below the annual threshold established in UMRA.

*Mandatory Arbitration.* The bill would authorize the SEC to prohibit mandatory predispute arbitration agreements between brokers, dealers, municipal financial advisers and their clients. Based upon information from industry sources, CBO expects that if the SEC were to impose such a mandate, the incremental cost to those entities of using the court system instead of arbitration could be significant.

*Deficiencies in Regulation.* The bill would require the SEC to establish regulations to address any deficiencies it finds in the regulation of brokers, dealers, and investment advisers. The cost of the mandates, if any, would depend on future rules and regulations.

*Other Financial Oversight and Protections.* The cost of each of the following mandates on securities markets would be small, relative to the annual threshold. The bill would

- Change the makeup of the Municipal Securities Regulatory Board and require municipal securities advisers to register with the SEC;
• Require auditors of broker-dealers to register with PCAOB and allow it to charge higher regulatory fees;

• Require members of a compensation committee for companies that issue securities to be independent; require companies to provide for an annual nonbinding vote on executive pay and disclose to shareholder the relationship between executive pay and performance; and require companies to have a compliance officer;

• Place additional requirements on the election of directors to the board of a company; and

• Require credit rating agencies to provide public disclosures about methods used to determine credit ratings and the performance of those ratings; to meet education requirements for analysts; and to institute policies to address conflicts of interest.

PREVIOUS CBO ESTIMATES

CBO has transmitted several cost estimates for bills ordered reported by the House Committee on Financial Services containing provisions that are similar to provisions in the Restoring American Financial Stability Act of 2010. CBO also published estimates of the direct spending and revenue effects of the Wall Street Reform and Consumer Protection Act of 2009, which consolidated and amended the individual bills and contained additional provisions.


On July 30, 2009, CBO transmitted an estimate for H.R. 3269, the Corporate and Financial Institution Compensation Fairness Act of 2009, as ordered reported by the House Committee on Financial Services on July 28, 2009. H.R. 3269 contains provisions that are similar to subtitle E of title IX of the Restoring American Financial Stability Act.

On November 13, 2009, CBO transmitted an estimate for H.R. 3818, the Private Fund Investment Advisers Registration Act of 2009, as ordered reported by the House Committee on Financial Services on October 27, 2009. H.R. 3818 contains provisions that are similar to title IV of the Senate bill.

On December 3, 2009, CBO transmitted an estimate for H.R. 3126, the Consumer Financial Protection Agency Act of 2009, as ordered reported by the House Committee on Financial Services on October 22, 2009. H.R. 3126 contains provisions that are similar to title X of the Senate bill.

On December 3, 2009, CBO transmitted an estimate for H.R. 3890, the Accountability and Transparency in Rating Agencies Act, as ordered reported by the House Committee on Financial Services on October 22, 2009. H.R. 3890 contains provisions that are similar to subtitle C of title IX of the Senate bill.

On March 11, 2010, CBO transmitted an estimate for H.R. 2609, the Federal Insurance Act of 2009, as ordered reported by the House Committee on Financial Services on December 2, 2009. H.R. 2609 is nearly identical to subtitle A of title V of the Senate bill.

ESTIMATE PREPARED BY:

Federal Costs: Kathleen Gramp, Susan Willie, Matthew Pickford, Daniel Hoople, and Wendy Kiska
Federal Revenues: Barbara Edwards
Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle
Impact on the Private Sector: Paige Piper/Bach, Brian Prest, and Sam Wice

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis