CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 12, 2006

H.R. 5585
Financial Netting Improvements Act of 2006

As ordered reported by the House Committee on Financial Services on June 14, 2006

SUMMARY

H.R. 5585 would amend banking, bankruptcy, and securities laws related to the disposition of financial contracts in the event of insolvency. In such cases, certain types of financial contracts are processed on a net basis to reduce the risk—especially the systemic risk associated with activities in derivatives markets—that the failure of one entity will disrupt and endanger financial markets. That process, known as financial netting, involves settling mutual obligations at their net value as opposed to each obligation's gross dollar value. H.R. 5585 would update existing laws regarding netting to ensure that some of the newer forms of contractual arrangements are resolved in the same manner as other similar contracts. The bill also would increase the statutory filing fee paid by those filing for bankruptcy under Chapter 7 of the bankruptcy code in order to raise the compensation paid to private trustees appointed to manage a debtor's estate under such bankruptcy relief.

Enacting H.R. 5585 could affect direct spending, but CBO estimates that any such changes would not be significant. H.R. 5585 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Most financial experts believe that the practice of netting financial transactions reduces the systemic risk that could result from the failure of banks, thrifts, or credit unions that hold derivative or other similar contracts. Thus, it is possible that clarifying the applicability of the netting requirement to some of the newer types of financial contracts could reduce the potential cost of some failures in the future. Based on information from federal regulatory agencies, CBO estimates that the impact of H.R. 5585 on the cost of resolving failed banks, thrifts, or credit unions would likely be small because the provisions in current law would cover most of the contracts used by insured institutions.

Increasing filing fees and trustee compensation under Chapter 7 of the bankruptcy code would have no budgetary impact. Under current law, $45 of the $245 fee paid by those filing for Chapter 7 relief is collected by the government on behalf of a private trustee, placed in a (nonbudgetary) deposit account, and paid to the private trustee. Those amounts are not owned by the federal government and are not recorded on the budget. H.R. 5585 would increase the Chapter 7 filing fee by $55 and increase the trustee's compensation by a corresponding amount.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5585 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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