CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 2, 2012

H.R. 3606
Reopening American Capital Markets to Emerging Growth Companies Act of 2011

As reported by the House Committee on Financial Services on March 1, 2012

H.R. 3606 would authorize the Securities and Exchange Commission (SEC) to exempt emerging growth companies from certain disclosure, auditing, and reporting requirements. The bill defines an emerging growth company (EGC) as an issuer of securities with less than $1 billion in annual revenues, and following an initial offering of securities, less than $700 million in publicly traded shares. A company may retain the EGC designation for a limited time—until its gross revenues or publicly traded share volume exceed those levels, or five years after an initial public offering of stock, whichever comes earlier.

The bill would exempt EGCs from requirements to:

- Allow shareholders to vote on executive compensation;
- Provide certain financial information in registration statements filed with the SEC;
- Comply with certain financial auditing rules; and
- Limit certain communication with brokers and dealers of securities, as well as investors.

Based on information from the SEC, CBO estimates that the SEC would require 40 additional staff positions to handle new review and enforcement activities that would result from changes under the bill. CBO estimates that implementing H.R. 3606 would cost about $50 million over the 2012-2017 period, assuming appropriation of the necessary amounts. Further, under current law, the SEC is authorized to collect fees to offset the cost of its annual appropriation each year; therefore, CBO estimates that the net cost to implement the provisions of H.R. 3606 would not be significant, assuming annual appropriation actions consistent with the agency’s authorities.

Enacting H.R. 3606 would increase both direct spending and revenues by amending provisions of law that affect the activities of the Public Company Accounting Oversight Board (PCAOB); therefore, pay-as-you-go procedures apply. The PCAOB, whose spending authority is not subject to appropriation action, is authorized to collect fees to offset its operating expenses. Those fees are recorded in the budget as revenues. CBO estimates that the effect on both revenues and direct spending would be insignificant over the 2012-2022 period.

H.R. 3606 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

H.R. 3606 would impose private-sector mandates, as defined in UMRA, on national securities associations registered with the SEC. Such associations, along with the SEC, govern the conduct of association members with regard to transactions related to securities. The bill would prohibit national securities associations from issuing rules to restrict certain oral and written communications related to public offerings of emerging growth companies. Currently, only one association is registered with the SEC—a self-regulatory organization for securities firms, brokers, and dealers. In addition, to the extent that the SEC would increase fee collections to recover any additional costs incurred to handle new review and enforcement activities, the bill could impose a mandate on private entities. Based on information from the SEC, CBO estimates that the cost of the mandates would be small relative to the annual threshold established in UMRA for private-sector mandates ($146 million in 2012, adjusted annually for inflation).

On March 2, 2012, CBO transmitted a cost estimate for H.R. 3606 as posted on the Web site of the House Committee on Rules on February 27, 2012. That version of the bill incorporates the version of H.R. 3606 as ordered reported by the House Committee on Financial Services on February 16, 2012. The CBO cost estimates for similar provisions of the bills are the same.

The CBO staff contact for this estimate is Susan Willie (for federal costs) and Paige Piper/Bach and Vi Nguyen (for the impact on the private sector). This estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.