



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 29, 2000

H.R. 4541 **Commodity Futures Modernization Act of 2000**

As ordered reported by the House Committee on Agriculture on June 27, 2000

SUMMARY

H.R. 4541 would reauthorize funding for the activities of Commodity Futures Trading Commission (CFTC) during the 2001-2005 period. The bill also would allow trading of individual stock futures under certain conditions, with oversight being shared by the CFTC and the Securities and Exchange Commission (SEC). In addition, H.R. 4541 would clarify that certain over-the-counter derivative transactions are outside of the jurisdiction of the CFTC. The bill also would authorize the CFTC to designate boards of trade as contract markets or execution facilities for derivatives transactions.

Assuming appropriation of the necessary amounts, CBO estimates that implementing this legislation would cost \$353 million over the 2001-2005 period. Although most of this cost would be incurred by the CFTC, CBO estimates that the SEC would spend \$1 million a year to regulate futures on individual securities. The bill would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 4541 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs, if any, would not exceed the threshold established in that act (\$55 million in 2000, adjusted annually for inflation). The bill does not contain any new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4541 on CFTC spending 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					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
CFTC Spending Under Current Law						
Budget Authority ^a	63	0	0	0	0	0
Estimated Outlays	57	6	0	0	0	0
Proposed Changes						
Estimated Authorization Level	0	67	69	72	74	77
Estimated Outlays	0	60	68	71	73	76
CFTC Spending Under H.R. 4541						
Estimated Authorization Level ^a	63	67	69	72	74	77
Estimated Outlays	57	66	68	71	73	76

a. The 2000 level is the amount appropriated for that year.

In addition to affecting CFTC spending, implementing H.R. 4541 also would cost the SEC \$1 million each year over the 2001-2005 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of fiscal year 2000 and that the necessary amounts will be appropriated by the start of each fiscal year. Outlay estimates are based on historical spending rates for the CFTC.

H.R. 4541 would reauthorize funding for activities of the CFTC over the 2001-2005 period. Based on the agency's current budget and adjusting for anticipated inflation, this reauthorization would cost \$59 million in 2001 and a total of \$343 million over the five-year period.

The bill also would make several changes to the Commodity Exchange Act that would increase administrative costs of the CFTC and the SEC. Based on information from the two agencies, CBO estimates that these new administrative responsibilities would cost \$2 million in 2001, and \$10 million over the 2001-2005 period. H.R. 4541 requires that the CFTC and the SEC jointly regulate individual stock futures. The CFTC also would be authorized to designate boards of trade as contract markets or execution facilities for derivatives transactions. CBO estimates that these added regulatory responsibilities would require the CFTC and the SEC to hire new staff.

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 4541 would preempt state laws affecting certain commodities transactions that are conducted in markets regulated by the Commodities Futures Trading Commission. Such a preemption would be a mandate as defined by UMRA. CBO estimates that the costs of this mandate, if any, would not exceed the threshold in that act (\$55 million in 2000, adjusted annually for inflation). The bill would impose no other costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill sets forth certain principles and requirements that would govern contract markets, execution facilities for derivative transactions, and derivative clearing organizations. Government and industry sources stated that these provisions appear to be a subset of current regulation. Thus, CBO expects that the bill would impose no new private-sector mandates.

ESTIMATE PREPARED BY:

Federal Costs: Kenneth Johnson
Impact on State, Local, and Tribal Governments: Susan Sieg Tompkins
Impact on the Private Sector: Judith Ruud

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis