



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 6, 2000

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

*As ordered reported by the House Committee on Commerce on July 26, 2000*

#### **SUMMARY**

H.R. 4541 would reauthorize funding for the activities of the Commodity Futures Trading Commission (CFTC) during the 2001-2005 period. The bill also would authorize the CFTC and the Securities and Exchange Commission (SEC) to regulate the trading of futures contracts on single stocks (single-stock futures) under certain conditions. In addition, H.R. 4541 would authorize those agencies to regulate trading of options on single-stock futures. Finally, the bill also would clarify that certain over-the-counter derivative transactions are outside of the jurisdiction of the CFTC.

Assuming appropriation of the necessary amounts, CBO estimates that implementing this legislation would cost \$368 million over the 2001-2005 period. Although most of this cost would be incurred by the CFTC, CBO estimates that the SEC would spend about \$4 million a year to regulate single-stock futures. H.R. 4541 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 4541 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs, if any, would not exceed the threshold established in the act (\$55 million in 2000, adjusted annually for inflation). CBO's estimate of the impact of this bill on the private sector will be provided later in a separate statement.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 4541 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				
	2001	2002	2003	2004	2005
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Proposed Changes to CFTC Spending					
Estimated Authorization Level	67	69	72	74	77
Estimated Outlays	60	68	71	73	76
Proposed Changes to SEC Spending					
Estimated Authorization Level	4	4	4	4	4
Estimated Outlays	4	4	4	4	4
Total Changes in Spending					
Estimated Authorization Level	71	73	76	78	81
Estimated Outlays	64	72	75	77	80

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2001 and that the necessary amounts will be appropriated for each fiscal year.

H.R. 4541 would reauthorize funding for the activities of the CFTC during the 2001-2005 period. For 2000, the agency received an appropriation of \$63 million. Based on the agency's current budget and adjusting for anticipated inflation, this reauthorization would cost about \$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 the administrative costs of the CFTC. The CFTC would share oversight of single stock futures transactions with the SEC. CBO estimates that this change to the CFTC's regulatory responsibilities would require the agency to hire new staff. Based on information from the CFTC, CBO estimates that these changes to the CFTC's administrative responsibilities would cost \$1 million a year over the 2001-2005 period. The bill also clarifies that the CFTC does not have jurisdiction over certain over-the-counter transactions for derivatives.

H.R. 4541 also would require that the SEC play a significant role in overseeing the market for single stock futures. Based on information from the SEC, CBO estimates that the SEC would have to hire additional staff to handle these new responsibilities. These new personnel would cost about \$4 million a year during the 2001-2005 period.

To the extent that single-stock futures would be traded on national securities exchanges, these transactions would be subject to fees charged by the SEC. However, H.R. 4541 would allow the trading of single-stock futures one year after enactment of the bill if the Congress makes the income tax treatment of single-stock futures equal to the income tax treatment of stock options. Because the trading of single-stock futures would be contingent upon enactment of subsequent legislation, CBO estimates that the provisions of H.R. 4541 related to single-stock futures would not cause an increase in fee collections.

H.R. 4541 also would authorize the SEC and CFTC to allow the trading of options on single-stock futures three years after the enactment of the bill, if single-stock futures can be traded. To the extent that options on single-stock futures would be traded on national securities exchanges, these transactions would be subject to fees charged by the SEC. Because the trading of options on single-stock futures would be contingent upon a future action of the Congress, CBO estimates that the provisions of H.R. 4541 related to such options would not cause an increase in fee collections or revenues.

**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. The bill also would expand a preemption of privacy laws in certain states by placing entities regulated by the CFTC under federal rather than state privacy requirements. Both a new preemption and an expansion of an existing one would be mandated as defined by UMRA. CBO estimates that the costs of these mandates, 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**

CBO's estimate of the impact of H.R. 4541 on the private sector will be provided later in a separate statement.

## **PREVIOUS CBO ESTIMATE**

On June 29, 2000, CBO transmitted a cost estimate for H.R. 4541 as ordered reported by the House Committee on Agriculture on June 27, 2000. The authorized activities for the CFTC and the SEC are different in those versions of the legislation, and our cost estimate reflects those differences. On July 11, 2000, CBO transmitted a cost estimate for S. 2697, the Commodity Futures Modernization Act of 2000, as ordered reported by the Senate Committee on Agriculture, Nutrition, and Forestry, on June 29, 2000. H.R. 4541 and S. 2697 would authorize the CFTC and SEC to carry out different activities, and our cost estimates reflect these differences.

## **ESTIMATE PREPARED BY:**

Federal Costs: Ken Johnson and Mark Hadley

Impact on State, Local, and Tribal Governments: Susan Sieg Tompkins

## **ESTIMATE APPROVED BY:**

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis