



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 30, 2013

H.R. 1256 **Swap Jurisdiction Certainty Act**

As ordered reported by the House Committee on Financial Services on May 7, 2013

H.R. 1256 would require the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) to jointly issue rules that define the application of United States regulations to swap transactions undertaken between a U.S. entity and a foreign entity. (A swap is a contract that calls for the exchange of cash between two participants based on an underlying rate or index or the performance of an asset.) Foreign participants in such transactions that are in compliance with the swap requirements of a country or region that has one of the nine largest swap markets, as determined by the agencies, would be exempt from the new requirements under certain conditions.

Based on information from the agencies, CBO expects that implementing H.R. 1256 would require the CFTC and the SEC to develop new rules and to review the regulations of large swap markets to determine whether exemptions would apply. CBO estimates that the costs to both agencies would be roughly equal—about \$4 million each. Under current law, the SEC is authorized to collect fees sufficient to offset the cost of its annual appropriation each year. Therefore, we estimate that the net cost to the SEC would be negligible, assuming appropriation actions consistent with that authority. CBO estimates that implementing H.R. 1256 would cost, on net, \$4 million for the CFTC's portion of the total cost, assuming appropriation of the necessary amounts. Enacting the bill would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

Enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) required both the CFTC and the SEC to develop numerous regulations that affect participants in swap transactions, including margin, clearing, and reporting requirements as well as standards of business conduct. The law did not, however, direct the agencies to develop regulations specifying when those requirements apply to swap transactions occurring between a U.S. entity and a foreign entity. Both agencies have published proposals to provide guidance for swap participants to determine whether U.S. regulations would apply to such transactions.

CBO estimates that implementing H.R. 1256 would increase the workload of both agencies to undertake a new rulemaking effort and an assessment of the regulations of the large swap markets. In addition, CBO expects that the agencies would incur costs to translate the regulations and supporting laws and reports for the large swap markets where English versions are not available.

H.R. 1256 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. Assuming that the SEC increases fees to offset the costs of implementing the additional regulatory activities required by the bill, H.R. 1256 would increase the cost of an existing mandate on private entities required to pay those fees. Based on information from the SEC, CBO estimates that the aggregate cost of the mandate would fall well below the annual threshold for private-sector mandates established in UMRA (\$150 million in 2013, adjusted annually for inflation).

On May 3, 2013, CBO published an estimate for H.R. 1256, the Swap Jurisdiction Certainty Act, as ordered reported by the House Committee on Agriculture on March 20, 2013. The two versions of the bill are similar, and the CBO cost estimates are the same.

The CBO staff contacts for this estimate are Susan Willie (for federal costs) and Paige Piper/Bach (for the private-sector impact). The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.