CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 7, 2013

H.R. 1341
Financial Competitive Act of 2013

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

The Third Basel Accord, the latest in a series of international agreements among central banks and financial regulators to standardize capital requirements for banks, directs financial institutions to, among other things, set aside additional capital reserves to account for the risk that counterparties participating in certain derivative agreements could default on the transaction. This additional capital requirement is known as the credit-value adjustment (CVA). H.R. 1341 would direct the Financial Stability Oversight Council (FSOC) to complete a study of the likely effects that differences between the way the United States and foreign regulators implement the CVA would have on financial institutions, users of derivatives, and derivatives markets. The study would include, among other things, an examination of the effect those differences would have on the pricing and cost of derivatives as well as the competitiveness of United States derivatives markets. H.R. 1341 would direct the FSOC to prepare a report of its findings for the Congress within 90 days of the date of enactment of the bill.

Based on information from the FSOC, CBO estimates that the bill would increase direct spending by about $1 million over the 2014-2023 period for additional staff to conduct the study and prepare the report. Under current law, the FSOC is authorized to levy an assessment on certain financial institutions to offset its operating costs. Those assessments are recorded in the budget as revenues; CBO expects that the FSOC would exercise that authority, and therefore, we estimate that enacting the bill would increase revenues by about $1 million as well.

In addition, CBO expects that the FSOC could use the expertise of staff from the regulatory agencies that make up the Council (the Federal Reserve System or the Securities and Exchange Commission, for example) to complete the study. CBO estimates that any additional costs incurred by those agencies would not be significant. On net, CBO estimates that enacting the bill would not have a significant effect on the deficit over the 10-year period. Because enacting H.R. 1341 would increase both direct spending and revenues, pay-as-you-go procedures apply.

H.R. 1341 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.

Assuming that the Financial Stability Oversight Council increases fees to offset the costs of conducting the study required by the bill, H.R. 1341 would impose a private-sector mandate by increasing the cost of an existing mandate on financial institutions required to pay those fees. Based on information from the FSOC, CBO estimates that the cost of the mandate would total about $1 million over the next 10 years, and thus fall well below the annual threshold for private-sector mandates established in UMRA ($150 million in 2013, adjusted annually for inflation).

The CBO staff contact for this estimate is Susan Willie. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.