CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 10, 2014

H.R. 5018
Federal Reserve Accountability and Transparency Act of 2014

As ordered reported by the House Committee on Financial Services on July 30, 2014

SUMMARY

H.R. 5018 would make a number of changes to the operations of the Federal Reserve System. The changes would include requiring new regulations issued by the Board of Governors to include a cost-benefit analysis that takes into account specified factors; requiring employees of the Board of Governors to follow a system of ethics standards currently applied to employees of the Securities and Exchange Commission; and requiring the Federal Open Market Committee to generate and provide to the Congress a monetary policy rule that meets certain requirements, and the Government Accountability Office (GAO) to assess any changes to the rule for compliance with those requirements.

CBO estimates that enacting H.R. 5018 would reduce revenues by $61 million over the 2015-2024 period; therefore, pay-as-you-go procedures apply. H.R. 5018 would not affect direct spending. Further, CBO estimates that the bill would increase discretionary spending by GAO by $2 million over the 2015-2019 period, assuming appropriation of the necessary amounts.

H.R. 5018 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 5018 is shown in the following table. The costs of this legislation fall within budget function 800 (General Government).

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
CHANGES IN REVENUES												
Estimated Revenues	-3	-6	-6	-6	-6	-6	-7	-7	-7	-7	-27	-61

Note: CBO estimates that implementing H.R. 5018 would cost about $2 million over the 2015-2019 period, subject to appropriation of the necessary amounts.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of calendar year 2014.

Revenues

The bill would directly affect revenues through the operations of the Federal Reserve System, which remits its net earnings to the Treasury; those remittances are classified as revenues in the federal budget. Based on information provided by both the Board of Governors of the Federal Reserve System and GAO, CBO estimates that the provisions of the bill would increase the costs of the Federal Reserve and thus reduce its remittances by $27 million over the 2015-2019 period, and by $61 million over the 2015-2024 period. CBO has not analyzed the possible effects of the legislation on the conduct of monetary policy or the implications of potential changes in monetary policy for the federal budget.

The provisions with significant effects on remittances would:

- Require the Federal Reserve, before issuing many new regulations, to undertake a cost-benefit analysis that would take into account factors such as the effects on economic growth, availability of credit, safety and soundness of the banking system, and small businesses. For regulations it issues in which the effect on the economy exceeds a certain threshold, the Federal Reserve would be required to undertake a post-adoption assessment of the actual effects.

- Make the employees and members of the Board of Governors subject to additional ethics standards and financial disclosure rules. The ethics standards would follow those that apply to employees of the Securities and Exchange Commission.

- Require the Federal Open Market Committee to develop a monetary policy rule that specifies an interest rate target and how that target rate would be adjusted for changes in certain economic variables. The rule would be provided to both GAO, which would assess any changes to the rule for compliance with the requirements of the bill, and to the Congress.

The largest component of the estimated effects on remittances would result from the Federal Reserve's need to hire new staff to issue and assess regulations, which CBO estimates would reduce remittances by $27 million over the 2015-2024 period. Over the same 2015-2024 period, the ethics and disclosure provisions of the bill would require the Federal Reserve to hire new staff to honor the new rules and would reduce remittances by an estimated $21 million. The provisions regarding the monetary policy rule would also require the Federal Reserve to hire additional staff, which would raise costs and reduce remittances by $13 million over the 2015-2024 period, CBO estimates.

CBO estimates that there would be insignificant revenue effects from other provisions of the bill affecting the Federal Reserve, including requiring the central bank to issue regulations related to the stress testing of bank holding companies and nonbank financial companies, providing for quarterly instead of semi-annual testimonies to the Congress on the economy and monetary policy, and requiring notice about impending international negotiations or agreements on financial regulatory matters.

Spending Subject to Appropriation

H.R. 5018 would require GAO to prepare a compliance report on any changes in the monetary policy rule initiated by the Federal Open Market Committee. CBO expects that implementing the provision would cost less than $500,000 annually and about $2 million over the 2015-2019 period, assuming the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 5018, as ordered reported by the House Committee on Financial Services on July 30, 2014

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Effects	0	3	6	6	6	6	6	7	7	7	7	27	61

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5018 contains no intergovernmental or private-sector mandates as defined in UMRA, and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Revenue: Nathaniel Frentz
Federal Costs: Matthew Pickford
Impact on State, Local, and Tribal Governments: J’nell Blanco
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

David Weiner
Assistant Director for Tax Analysis

Theresa Gullo
Deputy Assistant Director for Budget Analysis