CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 31, 2016

H.R. 1309
Systemic Risk Designation Improvement Act of 2015

As ordered reported by the House Committee on Financial Services on November 4, 2015

SUMMARY

H.R. 1309 would amend current law to change the process and procedures that federal regulators follow for determining which bank holding companies should be designated as systemically important financial institutions (SIFIs). Under current law, all banks with consolidated assets exceeding $50 billion are automatically designated as SIFIs. H.R. 1309 would repeal the automatic designation for most banks and establish a new process under which such firms would be designated on a case-by-case basis.

Based on information from the federal financial regulators, CBO estimates that enacting the legislation would increase net direct spending by $98 million and increase revenues by $13 million over the next 10 years, leading to a net increase in the deficit of $85 million over the 2017-2026 period. Some of that cost would be recovered from financial institutions in years after 2026. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

H.R. 1309 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

CBO expects the Financial Stability Oversight Council (FSOC) would increase assessments on financial institutions to offset the costs of implementing H.R. 1309, which would increase the cost of an existing mandate on private entities required to pay those assessments. Based on information from FSOC, CBO estimates that the incremental cost of the mandate would fall well below the annual threshold for private-sector mandates established in UMRA ($154 million in 2016, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 1309 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											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Administrative Costs to Financial Regulators to Review and Designate Financial Institutions[a]	1	3	8	6	7	7	7	7	7	7	25	60
Additional Costs to the FDIC to Resolve Failed Financial Institutions[b]	0	1	4	4	4	2	2	2	3	3	13	25
Total Increase in the Deficit	1	4	12	10	11	9	9	9	10	10	38	85
Memorandum: Components of the Net Increase in the Deficit												
INCREASES IN DIRECT SPENDING												
Total Changes in Direct Spending												
Estimated Budget Authority	1	6	12	11	12	10	11	11	12	12	42	98
Estimated Outlays	1	6	12	11	12	10	11	11	12	12	42	98
INCREASES IN REVENUES												
Total Changes in Revenues	0	2	1	1	1	2	2	2	2	2	4	13

Source: Congressional Budget Office.

Notes: Amounts may not sum to totals because of rounding; FDIC = Federal Deposit Insurance Corporation.

a. Administrative costs to financial regulators include costs incurred by the Federal Deposit Insurance Corporation, the Financial Stability Oversight Council, the Office of Comptroller of the Currency, the National Credit Union Administration, and the Federal Reserve System. Costs to the Federal Reserve System reduce remittances to the Treasury (which are recorded in the budget as revenues). Administrative costs to some of the other financial regulators are offset, over time, by assessments levied on financial industries.

b. Additional costs to resolve financial institutions under H.R. 1309 would be offset, over time, by increased assessments on federally insured depository institutions.

BASIS OF ESTIMATE

Most of the budgetary effects under the legislation would stem from increased administrative costs to the federal financial regulators and from the small chance that the Federal Deposit Insurance Corporation (FDIC) would incur additional costs to resolve failed financial institutions.

Administrative Costs to Financial Regulators to Review and Designate Systemically Important Financial Institutions

Enacting H.R. 1309 would increase the workload of FSOC and other financial regulators that are charged with designating depository institutions and other financial firms as SIFIs. Under current law, all banks with consolidated assets exceeding $50 billion are automatically designated as SIFIs. One year after enactment, H.R. 1309 would repeal the automatic designation for most banks—those that are not designated as globally significant by the Basel Committee—and establish a new process under which such firms would be designated on a case-by-case basis. (The eight banks that are currently designated as globally significant would retain that designation.)

Based on information from the financial regulators on the increased workload that would be required under the bill and incorporating a partial recovery of administrative costs from private entities (some of which are recorded as revenues in the budget), CBO estimates that enacting this provision of the legislation would increase budget deficits by $60 million over the 2017-2026 period.

Additional Costs to the FDIC to Resolve Failed Financial Institutions

Under current law, firms that are designated as SIFIs are subject to enhanced prudential regulation by financial regulators. Among other things, those regulations require SIFIs to undergo special stress tests, develop resolution plans, and maintain certain levels of liquidity and capacity to absorb losses. Based on information from national credit rating agencies and academic, industry, and regulatory experts, CBO concludes that the added capital and transparency that results from those enhanced prudential regulations improve the safety and soundness of the affected firms. On balance, CBO estimates that such regulation lowers the FDIC’s cost to resolve insolvent firms (whether through the Orderly Liquidation Fund or the Deposit Insurance Fund) by 2 percent to 3 percent, primarily because those measures should result in shareholders and other creditors absorbing a larger share of any losses in the event of insolvency.

CBO expects that the revised procedures in H.R. 1309 could delay the designation of some banks as SIFIs and may reduce the number of banks so designated. Under current law, CBO estimates that enhanced prudential regulation of SIFIs will reduce the net losses incurred by the FDIC by about $500 million over the next 10 years. Based on recent trends in the designation process, CBO estimates that the amount of assets subject to enhanced regulation would be about 5 percent smaller under this bill, resulting in an estimated increase in the deficit from losses of $25 million over the 2017-2026 period. Most of those costs would be offset after 2026 by income to the FDIC from fees paid by insured depository institutions, which are recorded in the budget as offsets to direct spending.

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 outlays and 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. 1309, as ordered reported by the House Committee on Financial Services on November 9, 2015

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	1	4	12	10	11	9	9	9	10	10	38	85
Memorandum:													
Changes in Outlays	0	1	6	12	11	12	10	11	11	12	12	42	98
Changes in Revenues	0	0	2	1	1	1	2	2	2	2	2	4	13

Note: Components may not sum to totals because of rounding.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1309 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO expects FSOC would increase assessments to offset the costs of implementing the additional regulatory activities required by H.R. 1309. Thus, the bill would increase the cost of an existing mandate on private entities required to pay those assessments. Based on information from FSOC, CBO estimates that the incremental cost of the assessments would total about $3 million to $7 million annually and would fall well below the annual threshold for private-sector mandates established in UMRA ($154 million in 2016, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On July 29, 2015, CBO provided an estimate for S. 1484, the Financial Regulatory Improvement Act, as ordered reported by the Senate Committee on Banking, Housing and Urban Affairs. Title II of that bill contained provisions that were similar to provisions contained in H.R. 1309. The CBO cost estimates for each piece of legislation reflect different requirements in the bills.

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