CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 15, 2016

H.R. 1550
Financial Stability Oversight Council Improvement Act of 2015

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

SUMMARY

H.R. 1550 would require the Financial Stability Oversight Council (FSOC) to change the procedures by which it designates certain companies as systemically important financial institutions (SIFIs). Those procedural changes would apply only to SIFIs that are not banking institutions and would affect the regulatory activities of other federal financial regulators including the Board of Governors of the Federal Reserve.

Based on information from FSOC and other federal financial regulators, CBO estimates that enacting the legislation would increase net direct spending by $73 million and increase revenues by $22 million over the next 10 years, leading to a net increase in the deficit of $51 million over the 2017-2026 period. Some of that cost would be recovered from financial institutions in the 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. 1550 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

CBO expects that the federal financial regulators would increase fees and other assessments to offset the costs of implementing the bill. Doing so would increase the cost of an existing private-sector mandate on entities required to pay those assessments. Based on information from the federal financial regulators, CBO estimates that the aggregate increase in fees and assessments would fall well below the annual threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 1550 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]	2	3	2	2	2	2	2	2	2	2	11	21
Additional Costs to resolve Non-Bank Financial Institutions[b]	0	0	1	3	5	5	4	4	4	4	9	30
Total Increase in the Deficit	2	3	3	5	7	7	6	6	6	6	20	51
Memorandum: Components of the Net Increase in the Deficit												
INCREASES IN DIRECT SPENDING												
Total Changes in Direct Spending												
Estimated Budget Authority	2	4	5	7	9	10	9	9	9	10	26	73
Estimated Outlays	2	4	5	7	9	10	9	9	9	10	26	73
INCREASES IN REVENUES												
Total Changes in Revenues	0	1	2	2	2	3	3	3	3	4	6	22

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 the 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 the financial regulators are typically offset, over time, by assessments levied on financial industries.

b. Additional costs to resolve financial institutions under H.R. 1550 would be eventually offset, by increased assessments on federally insured depository institutions. Some of those increases would occur after 2026.

BASIS OF ESTIMATE

The budgetary effects of the legislation would stem from increased administrative costs to the federal financial regulators and costs to resolve certain financial institutions. CBO estimates that provisions in the bill that would change the standards and procedures for designating systemically important financial institutions would slightly increase the probability of losses to the Federal Deposit Insurance Corporation (FDIC) from resolving possible future defaults by certain nonbank financial institutions. The FDIC can eventually recover its costs for resolving those defaults from assessments on the financial industry; however, CBO estimates that such recoveries would occur over many years, resulting in a small additional net increase in deficits over the 2017-2026 period.

For this estimate, CBO assumes that the bill will be enacted near the end of 2016 and that spending will follow historical patterns.

Administrative Costs to Financial Regulators to Review and Designate Financial Institutions

Enacting H.R. 1550 would change the procedures and timeline FSOC uses to designate nonbank financial institutions (such as insurance companies) as SIFIs. Provisions in the bill would increase the workload of FSOC and other financial regulators that are charged with designating such firms as SIFIs. Based on information from FSOC, CBO estimates that FSOC and the federal financial regulators would need to hire an additional 20 to 30 people (with average salaries of around $200,000) to comply with the requirements of the bill. About half of those staff would be required to assist with implementing new requirements associated with conducting annual reviews of nonbank financial firms and about half would be required to assist with reviewing and identifying firms that may be designated in the future. As a result, CBO estimates that enacting the administrative provisions of H.R. 1550, assuming a partial recovery of administrative costs from private entities (some of which are recorded as revenues in the budget), would increase budget deficits by $21 million over the 2017-2026 period.

Additional Costs to the FDIC to Resolve Non-Bank Financial Institutions

Under current law, non-bank firms that are designated as SIFIs are subject to enhanced prudential regulation by the Board of Governors of the Federal Reserve. Those regulations are designed to be similar to those imposed on banks, which typically require SIFIs to undergo special stress tests, develop resolution plans, and maintain certain levels of liquidity and loss absorbing capacity. Based on information from national credit rating agencies and from 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.[1] On balance, CBO estimates that such regulation lowers the FDIC's cost of resolving insolvent firms through the Orderly Liquidation 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 standards and procedures in H.R. 1550 could delay when some nonbank firms are designated as SIFIs and may reduce the number of firms so designated. Under current law, CBO estimates that enhanced prudential regulation of nonbank SIFIs will reduce the net losses incurred by the FDIC by about $150 million over the next 10 years. Based on recent trends in the designation process, CBO estimates that the amount of nonbank assets subject to enhanced regulation would be about 20 percent smaller over the next ten years under this bill, resulting in additional net costs totaling $30 million over the 2017-2026 period. Most of those losses would be offset after 2026 by income to the FDIC from fees paid by insured depository institutions and large financial firms.

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. 1550, as ordered reported by the House Committee on Financial Services on November 5, 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	2	3	3	5	7	7	6	6	6	6	20	51
Memorandum:													
Changes in Outlays	0	2	4	5	7	9	10	9	9	9	10	26	73
Changes in Revenues	0	0	1	2	2	2	3	3	3	3	4	6	22

1. See, for example, Standard and Poors, "Dodd-Frank Five Years Later: The Good, the Questionable, and the Unintended," July 1, 2015.

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. 1550 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 that the federal financial regulators would increase fees and assessments to offset the costs of implementing the additional regulatory activities required by the bill. Doing so would increase the cost of an existing mandate on private entities required to pay those assessments. Based on information from the agencies, CBO estimates that incremental cost of the mandate would amount to about $37 million over the 2017–2026 period and, in aggregate, would fall well below the annual threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted annually for inflation).

PREVIOUS ESTIMATES

On July 29, 2015, CBO transmitted a cost estimate for S. 1484, the Financial Regulatory Improvement Act of 2015, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on June 2, 2015. Title II of that bill includes provisions that would modify the processing for designating nonbank SIFIs. The specific requirements in H.R. 1550 differ from those in S. 1484, but CBO estimates that the net budgetary effect of the provisions in the two bills would be similar.

ESTIMATE PREPARED BY:

Federal Costs: Sarah Puro and Kathleen Gramp
Revenues: Nathaniel Frentz
Impact on State, Local, and Tribal Governments: J'nell Blanco Suchy
Impact on the Private Sector: Logan Smith

ESTIMATE APPROVED BY:

Theresa Gullo
Assistant Director for Budget Analysis