CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 13, 2015

H.R. 3189
Fed Oversight Reform and Modernization Act of 2015

As ordered reported by the House Committee on Financial Services on July 29, 2015

SUMMARY

H.R. 3189 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 of the Federal Reserve 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; requiring the Federal Open Market Committee to generate and provide to the Congress a monetary policy rule that meets certain requirements, and requiring the Government Accountability Office (GAO) to assess any changes to the rule for compliance with those requirements; restricting the powers of the Board of Governors to conduct emergency lending to firms other than banks; requiring a GAO audit of the Federal Reserve; and requiring the Federal Reserve to include an analysis of the Export-Import Bank in a regularly published statistical release.

CBO estimates that enacting H.R. 3189 would reduce revenues by $109 million over the 2016-2025 period. CBO also estimates that the bill would result in an insignificant increase in direct spending. Because the bill affects revenues and direct spending, pay-as-you-go procedures apply. Further, CBO estimates that the bill would increase discretionary spending by $7 million over the 2016-2020 period, assuming appropriation of the necessary amounts.

CBO estimates that enacting H.R. 3189 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 2026.

H.R. 3189 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. 3189 is shown in the following table.

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN REVENUES[a]												
Regulatory Cost-Benefit Analysis	-3	-5	-6	-6	-6	-6	-7	-7	-7	-8	-26	-61
Ethics Standards	-1	-2	-2	-2	-3	-3	-3	-3	-3	-3	-11	-25
Monetary Policy Rule	-1	-1	-1	-1	-1	-1	-2	-2	-2	-2	-6	-14
Analysis of Export-Import Bank	*	*	*	-1	-1	-1	-1	-1	-1	-1	-2	-5
GAO Audit	*	*	*	*	*	*	*	*	*	*	-1	-3
Total Change in Revenues	-6	-10	-10	-11	-11	-11	-12	-12	-13	-13	-48	-109

Source: Congressional Budget Office.

Notes: The bill would also have discretionary costs of $7 million over the 2016-2020 period for administrative expenses at GAO, the Department of the Treasury, and the Securities and Exchange Commission. The bill would also result in insignificant increases in mandatory spending for the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency.

Amounts may not sum to totals because of rounding.

* = between -$500,000 and $500,000.

a. Negative numbers indicate a reduction in revenues.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted in the first part of calendar year 2016.

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 the Board of Governors of the Federal Reserve System, CBO estimates that enacting the bill would increase the costs of Federal Reserve operations and thus reduce its remittances by $48 million over the 2016-2020 period, and by $109 million over the 2016-2025 period.

The provisions with the most significant effects on revenues 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 and availability of credit. The Federal Reserve would also be required to compare the costs and benefits of each proposed regulation with certain alternatives. In addition, 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.

- Restrict the authority of the Board of Governors to conduct emergency lending under Section 13(3) of the Federal Reserve Act, which provides the Federal Reserve with broad discretion to make loans to banks and nonbanks under unusual and exigent circumstances. The changes would include limiting eligibility to firms predominantly engaged in financial activities, requiring that a minimum interest rate be charged, disallowing equity securities to be pledged as collateral, and requiring independent appraisals of collateral.

- Make a number of other changes, including requiring the Federal Reserve to regularly analyze certain economic effects of the Export-Import Bank; requiring GAO to prepare, within 12 months of enactment, an audit of the Board of Governors of the Federal Reserve System and the Federal Reserve banks, including the conduct of monetary policy; restricting certain public communications by the Federal Open Market Committee (FOMC); changing the membership of the FOMC; and requiring the Board of Governors to issue certain regulations on stress testing of financial institutions.

The largest component of the estimated effects on remittances would result from the additional Federal Reserve staff required for the additional regulatory cost-benefit analyses. CBO estimates that those analyses would reduce remittances by $61 million over the 2016-2025 period. In addition, CBO estimates that the additional ethics requirements would require additional Federal Reserve staff and reduce remittances by

$25 million over the 2016-2025 period. Smaller reductions in revenues over the 2016-2025 period would result from the requirements of the bill related to the monetary policy rule ($14 million), from the analysis of the Export-Import Bank ($5 million), and from other provisions ($3 million).

CBO has no basis for estimating the effects on revenues from the provisions of the bill that would restrict the Federal Reserve's emergency lending authority. Based on its own analysis of historical lending and information provided by the Federal Reserve, CBO estimates that the amount of any emergency lending that would occur in the future would likely be reduced by the bill, partly due to restrictions on eligible firms, but mostly as a result of the new required minimum interest rate. That lower amount of lending, at a higher rate, could either increase or decrease the Federal Reserve's earnings and thereby its remittances. Any such effects would be significantly discounted given the low probability of any emergency lending occurring over the next 10 years. To the extent that Federal Reserve emergency lending has effects on the broader economy, a reduction in the amount or types of emergency lending could have budgetary effects that are much larger than any effect on Federal Reserve remittances.

Direct Spending

The bill would require the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency to provide advance notice and solicit comment before it participates in a process of setting financial standards as part of any multinational entity. CBO estimates that those requirements would result in an insignificant increase in direct spending; those agencies can eventually recover additional costs through assessments.

Spending Subject to Appropriation

CBO estimates that the bill would increase spending subject to appropriation by $7 million over the 2016-2020 period. The largest costs would result from the requirement that GAO prepare, within 12 months of enactment, an audit of the Board of Governors of the Federal Reserve System and the Federal Reserve banks, including the conduct of monetary policy. Based on information from GAO regarding the amount of effort required for its previous audit of the Federal Reserve, which was required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203), CBO estimates a new audit would increase spending by $5 million over the 2016-2020 period, assuming appropriation of the necessary amounts. That cost would cover the full-time and part-time GAO employees plus administrative expenses necessary to prepare the audit required by the bill as well as future oversight and analysis that CBO expects would result from the enactment of the requirement.

In addition, the bill 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 2016-2020 period, assuming the availability of appropriated funds. Furthermore, CBO estimates that requirements on the Department of the Treasury and the Securities and Exchange Commission (SEC) for notice and comments related to multinational entities would cost less than $500,000 over the 2016-2020 period, assuming the availability of appropriated funds. Under current law, the SEC is authorized to collect fees sufficient to offset its annual appropriation; therefore, we estimate that the net cost to the SEC would be negligible.

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. 3189, as ordered reported by the House Committee on Financial Services on July 29, 2015

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
INCREASE IN THE DEFICIT												
Statutory Pay-As-You-Go Effects	6	10	10	11	11	11	12	12	13	13	48	109

INCREASE IN LONG TERM DIRECT SPEDING AND DEFICITS

CBO estimates that enacting H.R. 3189 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 2026.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3189 contains no intergovernmental or private-sector mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

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