



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 30, 2016

### **H.R. 5311** **Corporate Governance Reform and Transparency Act of 2016**

*As ordered reported by the House Committee on Financial Services on June 16, 2016*

H.R. 5311 would require proxy advisory firms to register with the Securities and Exchange Commission (SEC) and would subject them to certain rules and reporting requirements. H.R. 5311 would define the term proxy advisory firm and direct the SEC to require firms that fall within this definition to register with the agency in order to operate. A proxy advisory firm is one that provides voting recommendations to investment advisors who have the authority to proxy vote for their clients. It also would require registered proxy advisory firms to disclose certain information to the SEC, such as their financial and managerial resources and any potential or actual conflicts of interest in providing proxy advisory services. Lastly, H.R. 5311 would direct the SEC to annually report on its regulation of these firms.

On the basis of information provided by the SEC, CBO estimates that implementing H.R. 5311 would cost \$5 million over the 2017-2021 period to hire about 4 additional staff to create and maintain the registry and to prepare annual reports. However, the SEC is authorized to collect fees sufficient to offset its annual appropriation; therefore, CBO estimates that the net effect on discretionary spending would be negligible, assuming appropriation actions consistent with that authority. Enacting H.R. 5311 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting H.R. 5311 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year period beginning in 2027.

H.R. 5311 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.

H.R. 5311 contains private-sector mandates as defined in UMRA. CBO estimates that the aggregate cost of those mandates would fall below the annual threshold for private-sector mandates established in UMRA (\$154 million in 2016, adjusted annually for inflation). The bill would impose new registration, disclosure, and personnel requirements on proxy advisory firms.

The cost of the mandates would be the incremental costs incurred by firms to comply with the bill's requirements. Based on an analysis of information from the SEC, industry sources, and the academic literature about current business practices, CBO estimates the incremental cost to comply with the mandates would be small.

In addition, CBO expects that the SEC would increase fees to offset the cost of implementing the bill. An increase in SEC fees would increase the cost of an existing mandate on private entities required to pay those fees. Based on information from the SEC, CBO estimates that the incremental cost of the mandate, if imposed, would total no more than \$5 million over the 2017-2021 period.

The CBO staff contact for this estimate is Stephen Rabent (for federal costs) and Logan Smith (for private-sector mandates). The estimate was approved by Theresa Gullo, Assistant Director for Budget Analysis.