CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 12, 2016

H.R. 5322
U.S. Territories Investment Protection Act of 2016

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

Under current law, the Securities and Exchange Commission (SEC) registers some issuers of securities as investment companies and regulates aspects of their operations. Investment companies that are located in Puerto Rico, the Virgin Islands, or other United States possessions are exempt from registration under certain conditions. H.R. 5322 would remove that exemption three years after the date of enactment of the bill; however, the SEC could extend the exemption for up to three additional years following the initial three-year period.

On the basis of information from the SEC, CBO estimates that there would be no significant cost for extending current regulations to include these companies. Moreover, 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 appropriations actions consistent with that authority.

Enacting H.R. 5322 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply. CBO estimates that enacting H.R. 5322 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

H.R. 5322 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

By removing a regulatory exemption under the Investment Company Act the bill would impose a private-sector mandate on investment companies that are headquartered in a U.S. territory and that sell securities exclusively to residents of that territory. Without the exemption those companies would be subject to existing federal requirements for investment companies such as registering with the SEC, meeting minimum capital requirements, making disclosures to investors, and registering the securities that they offer. The cost of the mandate would include registration fees and the ongoing costs of complying with SEC requirements. Based on an estimate of the total asset size of the investment companies that could be affected and the current rates of regulatory fees that would apply to those companies, CBO estimates that the aggregate cost of the mandate would fall below the annual threshold established in UMRA ($154 million in 2016, adjusted annually for inflation).

The CBO staff contacts for this estimate are Stephen Rabent (for federal costs) and Logan Smith (for private-sector mandates). The estimate was approved H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.