CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 4, 2017

H.R. 1366
U.S. Territories Investor Protection Act of 2017

As ordered reported by the House Committee on Financial Services on March 9, 2017

Under current law, the Securities and Exchange Commission (SEC) requires some issuers of securities to register as an investment company 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 and therefore, exempt from the related regulations that apply to investment companies. H.R. 1366 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.

Based on an analysis of information from the SEC, CBO estimates that implementing H.R. 1366 would have no significant effect on the agency's costs or operations to extend current regulations to include those 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 appropriation actions consistent with that authority.

Enacting H.R. 1366 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply. CBO estimates that enacting H.R. 1366 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1366 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.

By removing their 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 for private-sector mandates ($156 million in 2017, adjusted annually for inflation).

On April 4, 2017, CBO transmitted a cost estimate for S. 484, the U.S. Territories Investor Protection Act of 2017, as reported by the Senate Committee on Banking, Housing, and Urban Affairs on March 13, 2017. The two bills are similar and CBO's estimate of their budgetary effects is the same.

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