CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 5, 2017

H.R. 4015
Corporate Governance Reform and Transparency Act of 2017

As ordered reported by the House Committee on Financial Services on November 15, 2017

H.R. 4015 would require proxy advisory firms to register with the Securities and Exchange Commission (SEC) and would subject them to certain rules and reporting requirements. The bill would define the term proxy advisory firm and direct the SEC to require firms that fall within that definition to register with the agency in order to operate. Such firms provide voting recommendations to investment advisors who have the authority to proxy vote for their clients. The bill also would require registered proxy advisory firms to disclose certain information to the SEC including their financial and managerial resources and to identify any potential or actual conflicts of interest in providing proxy advisory services. H.R. 4015 also would direct the SEC to report annually on its regulation of those firms.

Using information from the SEC, CBO estimates that implementing H.R. 4015 would cost $5 million over the 2018-2022 period for the agency to hire four additional employees to create and maintain the registry and to prepare the annual reports. However, because the SEC is authorized to collect fees sufficient to offset its annual appropriation, CBO estimates that the net effect on discretionary spending would be negligible, assuming appropriation actions consistent with that authority.

Enacting H.R. 4015 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting H.R. 4015 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 4015 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

H.R. 4015 would impose private-sector mandates as defined in UMRA, but CBO estimates that their aggregate cost would fall well below the annual threshold for private-sector mandates ($156 million in 2017, adjusted annually for inflation). The bill would establish new registration, disclosure, and personnel requirements for proxy advisory firms. Information from the SEC and industry sources indicates that the affected firms would probably already meet many of the bill's requirements. Consequently, CBO estimates that the incremental cost to comply with those mandates would be small. Additional fees collected by the SEC, as anticipated by CBO to implement the bill, would increase the cost of an existing mandate on private entities. CBO estimates that the incremental cost of those fees would total no more than $5 million over the 2018-2022 period.

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