

## At a Glance

### H.R. 1815, SEC Disclosure Effectiveness Testing Act

As ordered reported by the House Committee on Financial Services on March 28, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Deficit Effect	0	0	0
Spending Subject to Appropriation (Outlays)	0	-8	n.e.
Statutory pay-as-you-go procedures apply?	No	<b>Mandate Effects</b>	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	Yes, Under Threshold

n.e. = not estimated.

#### The bill would

- Require the Securities and Exchange Commission (SEC) to test the usability of proposed and currently mandated disclosures that financial professionals such as broker-dealers and investment advisors are required to provide to retail investors
- Raise the cost of an existing mandate on private entities required to pay assessments to the SEC

#### Estimated budgetary effects would primarily stem from

- Hiring full time employees and contractors to test the usability of more than 100 proposed and currently mandated disclosures

**Detailed estimate begins on the next page.**



## Bill Summary

Financial professionals such as broker-dealers and investment advisors are required by the Securities and Exchange Commission (SEC) to disclose a variety of documents and other information to retail investors.<sup>1</sup> Disclosures are designed to educate retail investors about financial choices, standards of care, fiduciary relationships, and other aspects of investing.<sup>2</sup> H.R. 1815 would require the SEC to test the usability of any disclosure that it mandates through a final rule to be provided to retail investors by broker dealers or investment advisors. Those usability tests would be required before the SEC adopts final rules governing such disclosures. If proposed disclosures undergo substantive changes before the final rule is promulgated, an additional usability test would be required. Disclosures previously mandated before the bill's enactment also would require a usability test.

Each usability test would include the following:

- One-on-one interviews with retail investors to assess their understanding of the disclosure in question;
- A nationwide survey of retail investors to assess the usefulness of the disclosure;
- An analysis of the interview and survey results, which would be published in the *Federal Register*; and
- An opportunity for public comment on those published results.

## Estimated Federal Cost

The estimated budgetary effect of H.R. 1815 is shown in Table 1. The costs of the legislation fall within budget function 370 (commerce and housing credit).

## Basis of Estimate

CBO estimates that implementing H.R. 1815 would have a gross cost to the SEC of \$156 million over the 2019-2024 period. However, the SEC is authorized to collect fees each year to offset its annual appropriation. Assuming appropriation actions consistent with that authority, CBO expects that implementing H.R. 1815 would lead to a net decrease in spending of \$8 million because the collection of fees would initially outpace spending on usability testing.

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1. Retail investors are individuals without advanced investment knowledge who buy and sell securities, exchange traded funds, or mutual funds, frequently with the advice of broker-dealers and investment advisors.
  2. For example, the SEC recently adopted a final rule mandating that broker-dealers and investment advisors disclose their financial services they offered, standards of conduct, fees and costs, conflicts of interest, and disciplinary history to retail investors. Under the rule, retail investors are entitled to a disclosure at the beginning of the relationship and an additional disclosure following a material change to the relationship. See [Form CRS Relationship Summary; Amendments to Form ADV](#), 17 C.F.R. § 200, 240, 249, 275, and 279 (June 5, 2019).



**Table 1.**  
**Estimated Increases in Spending Subject to Appropriation Under H.R. 1815**

	By Fiscal Year, Millions of Dollars						2019-2024
	2019	2020	2021	2022	2023	2024	
Testing of Proposed Documents							
Estimated Authorization	0	27	28	29	30	31	145
Estimated Outlays	0	20	28	29	30	31	138
Testing of Prior Documents							
Estimated Authorization	0	*	4	5	5	5	19
Estimated Outlays	0	*	3	5	5	5	18
Additional Fee Collections							
Estimated Authorization	0	-27	-32	-34	-35	-36	-164
Estimated Outlays	0	-27	-32	-34	-35	-36	-165
Total Changes							
Estimated Authorization	0	0	0	0	0	0	0
Estimated Outlays	0	-7	-1	0	0	0	-8

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

Using information from the SEC on the quantity of proposed rules that involve disclosures to retail investors, CBO estimates that the agency would test the usability of an average of 18 disclosures each year over the 2020-2024 period. Each test would require the work of three employees, at a cost of \$250,000 per employee, and contractor support at a cost of \$600,000. CBO estimates that some retesting would be required because of substantive changes to proposed disclosures before final promulgation. In total, CBO estimates, the SEC would conduct 95 investor tests over the next five years, at a gross cost of \$138 million, including the cost of publishing data and results.

Under H.R. 1815, the SEC would establish a schedule in 2020 to test disclosures mandated by final rules in place before the bill's enactment. Testing on those disclosures would probably begin in 2021. CBO estimates that three such disclosures would be tested each year from 2021 to 2024, at a gross cost of \$18 million over the 2020-2024 period.

**Pay-As-You Go Considerations:** None.

**Increase in Long-Term Deficits:** None.

## Mandates

If the SEC increased fees to offset the costs of implementation, H.R. 1815 would raise the cost of an existing mandate on private entities required to pay those assessments. CBO estimates that, on average, the annual incremental cost of the mandate would be less than \$35 million—well below the annual threshold established in the Unfunded Mandates Reform Act for private-sector mandates (\$164 million in 2019, adjusted annually for inflation).

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