



December 4, 2009

Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have reviewed H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009, as introduced on December 2, 2009. As summarized in the enclosed table, CBO and JCT estimate that enacting H.R. 4173 would increase revenues by \$4.9 billion over the 2010-2019 period and would increase direct spending by \$9.4 billion over that 10-year period. In total, CBO estimates that enacting the legislation would increase budget deficits by \$10.7 billion over the 2010-2014 period and by \$4.5 billion over the 2010-2019 period. CBO has not completed an estimate of the bill's impact on spending subject to appropriation.

The direct spending and revenue impacts of H.R. 4173 stem from provisions in titles I, IV, and V. Those budgetary impacts are briefly described below.

Title I—Financial Stability Improvement Act

CBO and JCT estimate that the provisions in title I would increase revenues by \$4.4 billion over the 2010-2019 period and increase direct spending by \$7.4 billion over the same period. The net effect of enacting this title would be an increase in budget deficits of \$3.0 billion over the 2010-2019 period. Much of that net cost would occur because income from the fees collected under this title would be partially offset by a loss of revenue from income and payroll taxes. Title I includes four subtitles that would affect direct spending and revenues; each is described below.

Subtitle B would establish new standards, procedures, and programs for identifying and addressing potential risks to the financial or economic stability of the United States. CBO estimates that implementing this subtitle would increase direct spending by \$1.1 billion and increase revenues by \$0.6 billion over the 2010-2019 period. Most of the estimated costs of this subtitle would result from provisions that would expand the scope and modify the terms of the Federal Deposit Insurance Corporation's (FDIC's) authority to guarantee obligations of solvent depository institutions and financial companies during a financial crises. While the probability of such events is small, potential losses from such guarantees could be significant. For this estimate, CBO assumes that the FDIC would eventually recover any costs through fees on participants and, as necessary, compulsory assessments (which are classified as revenues) on very large financial institutions. The FDIC's authority to provide guarantees would expire on December 31, 2013.

Subtitle C would revise the regulatory regime for thrift associations, transferring functions now performed by the Office of Thrift Supervision (OTS) to other regulatory agencies. CBO estimates that enacting those provisions would increase direct spending by \$0.5 billion and reduce revenues by \$0.3 billion over the 2010-2019 period. Most of the estimated costs of this subtitle would result from provisions that would authorize the Office of the Comptroller of Currency to enter into agreements without regard to existing laws governing the disposition of real or personal property; allow for the expenditure of unobligated funds held by the OTS; and transfer oversight of thrift holding companies to the Federal Reserve, which unlike the OTS does not charge fees to cover its supervision costs.

Subtitle D would direct the Federal Reserve to assess fees on bank holding companies with total assets of \$10 billion or more to defray the cost of examining those firms. CBO estimates that the Federal Reserve would collect about \$0.4 billion over the 2010-2019 period to offset those costs. That collection would increase revenues remitted to the Treasury by the Federal Reserve. (This provision would not apply to thrift holding companies, which would come under the Federal Reserve's supervision in subtitle C.)

Subtitle G would create new government mechanisms for dissolving systemically important firms that are in default or in danger of default. CBO estimates that implementing these provisions would increase direct

spending by \$5.7 billion and increase revenues by \$3.7 billion over the next 10 years. Under conditions outlined in the bill, the FDIC would be appointed as receiver and would be authorized to enter into various arrangements necessary to liquidate such firms, including organizing bridge banks that would be exempt from federal and state taxation. Under this bill, the FDIC's obligations for this purpose would be capped at \$150 billion. Those funds could be derived from assessments on certain large financial firms (which are classified in the budget as revenues) or amounts borrowed from the Treasury. Under the bill, any amounts borrowed through the Treasury would be repaid from proceeds from asset sales, warrants, or future assessments on private firms. The FDIC's authority to obligate or borrow funds for such activities would expire on December 31, 2013. CBO expects that the probability of such receivership activities would be small and that spending for losses and working capital would eventually be offset by recoveries and assessments.

Title IV—Consumer Financial Protection Act

Title IV of H.R. 4173 is identical to H.R. 3126, the Consumer Financial Protection Agency Act of 2009, as ordered reported by the House Committee on Financial Services on October 22, 2009. On December 3, 2009, CBO transmitted a cost estimate for H.R. 3126 to the Congress. As detailed in that cost estimate, the provisions of title IV of H.R. 4173 would increase direct spending by \$0.6 billion over the 2010-2019 period and decrease revenues by \$0.5 billion over the same period. In total, those changes would increase budget deficits by about \$1.1 billion over the 2010-2019 period. This net deficit impact would result for a number of reasons:

- The Department of the Treasury would incur costs that would not be subject to appropriation and would not be offset by fees;
- The Federal Reserve would incur additional costs that would decrease the revenues they would remit to the Treasury;
- While the Consumer Financial Protection Agency would be authorized to spend all of the fees they collect under the bill, those fees would be partially offset by a loss of receipts from income and payroll taxes; and

- Federal banking regulators would not be able to offset all of the costs they would incur under title IV because the bill would impose a cap on the fees they are otherwise authorized to collect under current law.

Title V—Capital Markets

CBO estimates that title V would increase direct spending by \$1.4 billion over the 2010-2019 period and increase revenues by about \$1.0 billion over the same 10-year period. The net effect of this title would be an increase in the federal deficit of about \$0.4 billion over the 10-year period.

The bill would increase fees to support examination activities by both the Securities and Exchange Commission (SEC) and the Public Companies Accounting Oversight Board (PCAOB), which would be recorded in the budget as revenues. This title also would raise the amount that the Securities Investor Protection Corporation (SIPC) would be authorized to borrow from the SEC; under current law, SIPC may borrow up to \$1 billion from the SEC—the bill would raise that to about \$2.5 billion. From fees collected from brokers and dealers of securities under current law, SIPC may make payments to investors that are harmed when a brokerage firm fails and customer assets are missing. CBO estimates that there is a small probability (about 10 percent) that SIPC would exercise the new borrowing authority over the next 10 years. CBO estimates that the net effect of the new borrowing authority would increase direct spending by about \$0.7 billion over the 2010-2019 period. Other provisions of the bill, including spending for awards to individuals who report violations of securities laws to the SEC and additional costs of the PCAOB, would increase direct spending by about \$0.7 billion over the 2010-2019 period.

Intergovernmental and Private-Sector Impact

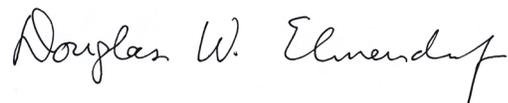
H.R. 4173 includes a number of intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA) that CBO previously identified in its cost estimates for H.R. 3269, the Corporate and Financial Institution Compensation Fairness Act of 2009; H.R. 3795, the Over-the-Counter Derivatives Markets Act of 2009; and H.R. 3818, the Private Fund Investment Advisers Registration Act of 2009. In addition, H.R. 4173 would preempt state laws and would impose intergovernmental and private-sector mandates on entities that conduct financial activities and credit rating agencies.

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Because the costs of complying with some of the mandates would depend on the regulations to be established under the bill, CBO cannot determine whether the aggregate costs of the intergovernmental mandates would exceed the annual threshold established in UMRA (\$69 million in 2009, adjusted annually for inflation). CBO estimates that the total costs of the private-sector mandates in the bill would well exceed the annual threshold established in UMRA (\$139 million in 2009, adjusted annually for inflation).

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Susan Willie and Kathleen Gramp (for federal spending), Barbara Edwards (for federal revenues), Elizabeth Cove Delisle (for intergovernmental mandates), and Sam Wice, Paige Piper/Bach, and Brian Prest (for private-sector mandates).

Sincerely,

A handwritten signature in cursive script that reads "Douglas W. Elmendorf".

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Spencer Bachus
Ranking Member

ESTIMATED CHANGES IN REVENUES AND DIRECT SPENDING RESULTING FROM H.R. 4173, THE WALL STREET REFORM AND CONSUMER PROTECTION ACT OF 2009, AS INTRODUCED ON DECEMBER 2, 2009

	By Fiscal Year, in Billions of Dollars										2010-	2010-
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014-	2019
CHANGES IN REVENUES												
Title I—Financial Stability Improvement Act												
Subtitle B—Prudential Regulation	0	0	0	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6
Subtitle C—Improvements to Supervision of Federal Depository Institutions	*	*	*	*	*	*	*	*	*	-0.1	-0.1	-0.3
Subtitle D—Improvements to Regulation of Bank Holding Companies	0	*	*	*	*	*	*	0.1	0.1	0.1	0.1	0.4
Subtitle G—Enhanced Dissolution Authority	0	0	0.2	0.4	0.5	0.5	0.5	0.5	0.6	0.5	1.1	3.7
Total Title I—Financial Stability Improvement Act	0	0	0.2	0.4	0.6	0.6	0.6	0.7	0.7	0.6	1.2	4.4
Title IV—Consumer Financial Protection Agency Act	0	0	-0.3	-0.2	-0.1	*	*	*	*	*	-0.6	-0.5
Title V—Capital Markets	<u>0</u>	<u>0.1</u>	<u>0.4</u>	<u>1.0</u>								
Total Changes in Revenues ^a	0	0.1	*	0.3	0.6	0.7	0.7	0.8	0.8	0.7	1.0	4.9
CHANGES IN DIRECT SPENDING												
Title I—Financial Stability Improvement Act												
Subtitle B—Prudential Regulation												
Estimated Budget Authority	0	0.6	0.9	0.6	0	-0.4	-0.3	-0.2	-0.1	0	2.1	1.1
Estimated Outlays	0	0.6	0.9	0.6	0	-0.4	-0.3	-0.2	-0.1	0	2.1	1.1
Subtitle C—Improvements to Supervision of Federal Depository Institutions												
Estimated Budget Authority	0	*	*	*	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.6
Estimated Outlays	0	*	*	*	0.1	0.1	0.1	0.1	*	*	0.1	0.5
Subtitle G—Enhanced Dissolution Authority												
Estimated Budget Authority	0.2	2.2	3.7	2.6	0.5	-1.5	-1.3	-0.5	-0.2	-0.1	9.2	5.7
Estimated Outlays	0.2	2.2	3.7	2.6	0.5	-1.5	-1.3	-0.5	-0.2	-0.1	9.2	5.7
Total Title I—Financial Stability Improvement Act												
Estimated Budget Authority	0.2	2.9	4.7	3.2	0.5	-1.8	-1.5	-0.6	-0.2	0	11.5	7.4
Estimated Outlays	0.2	2.9	4.7	3.2	0.5	-1.8	-1.5	-0.6	-0.2	*	11.5	7.4
Title IV—Consumer Financial Protection Agency Act												
Estimated Budget Authority	*	*	-0.2	-0.1	*	0.1	0.2	0.2	0.2	0.2	-0.3	0.6
Estimated Outlays	*	*	-0.2	-0.1	*	0.1	0.2	0.2	0.2	0.2	-0.3	0.6

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	By Fiscal Year, in Billions of Dollars												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010- 2014	2010- 2019	
CHANGES IN DIRECT SPENDING Continued													
Title V—Capital Markets													
Estimated Budget Authority	*	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.1	0.1	0.5	1.4	
Estimated Outlays	*	0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.1	0.1	0.5	1.4	
Total Changes in Direct Spending													
Estimated Budget Authority	0.2	3.0	4.6	3.2	0.9	-1.5	-1.1	-0.2	0.1	0.3	11.9	9.5	
Estimated Outlays	0.2	3.0	4.6	3.2	0.8	-1.5	-1.1	-0.2	0.1	0.3	11.7	9.4	
IMPACT OF CHANGES IN REVENUES AND DIRECT SPENDING ON THE DEFICIT													
Net Effect on the Deficit ^b	0.2	2.9	4.6	2.9	0.2	-2.2	-1.8	-1.0	-0.9	-0.4	10.7	4.5	

Notes: * = between -\$50 million and \$50 million. Components may not sum to totals because of rounding.

- a. H.R. 4173 could affect federal tax receipts under the Internal Revenue Code. However, there are a number of uncertainties regarding potential effects of the use of a bridge financial company by the Federal Deposit Insurance Corporation on the tax attributes of a failed financial institution. It is not possible to determine whether the use of a bridge financial company would provide a tax result that is more or less favorable than bankruptcy, which is the current-law alternative. For this reason at this point, the staff of the Joint Committee on Taxation is not able to estimate the changes in tax revenue that would result from the bill.
- b. Positive numbers indicate increases in deficits; negative numbers indicate the opposite.