



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

May 3, 2010

Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have reviewed amendment number 3739 in the nature of a substitute for S. 3217, the Restoring American Financial Stability Act of 2010. As summarized in the enclosed table, CBO and JCT estimate that the changes in direct spending and revenues from enacting the amendment would decrease federal budget deficits by \$5.9 billion over the 2011-2015 period and by \$19.5 billion over the 2011-2020 period. In addition, CBO estimates that implementing the amendment would increase spending subject to appropriation by \$4.6 billion over the 2011-2015 period and \$13.2 billion over the 2011-2020 period.

This cost estimate is similar to the estimate CBO transmitted on April 21, 2010, for S. 3217, as ordered reported by the Senate Committee on Banking, Housing and Urban Affairs on March 22, 2010. There are, however, two differences. First, title VII of the amendment contains a provision, not included in the reported bill, that would establish a program whereby the Commodity Futures Trading Commission would give awards to individuals who provide information about violations of commodity trading laws. CBO estimates that enacting that provision would increase direct spending by \$0.2 million over the 2011-2020 period.

Second, the estimate includes a projected decrease in revenues from the provisions of title VII, which deals with regulation of over-the-counter derivatives contracts. The staff of the Joint Committee on Taxation estimates that those provisions would reduce revenues by about \$1 billion over the 2011-2020 period. Title VII would require that certain derivatives be (1) traded on or subject to the rules of a securities exchange or board of trade and (2) centrally cleared by an organization regulated by the federal government. As a result, it is expected that some taxpayers would take the position that such derivatives are subject to section 1256 of the Internal

Honorable Christopher J. Dodd

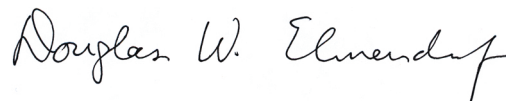
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Revenue Code; that section specifies an alternative method for allocating gains and losses between short- and long-term sources, and requires the inclusion in taxable income of gains and losses on any contract held at the end of a taxable year. Because the individual tax rates on short- and long-term gains and losses differ, and the timing of the taxation of gains and losses would change, those provisions would have an impact on revenues. It is also expected that the Treasury would issue guidance narrowly interpreting the scope and application of section 1256 with regard to derivatives contracts. As a result, there is considerable uncertainty about the size of the expected revenue losses.

The reported version of S. 3217 and a related House bill (H.R. 4173) also included provisions regarding derivatives contracts that would affect federal revenues. However, that impact was not included in CBO's cost estimates for those bills because CBO and JCT had not yet identified that effect.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Susan Willie (for federal spending) and Mark Booth (for federal revenues).

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive, flowing style.

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Richard C. Shelby
Ranking Member

Honorable Blanche L. Lincoln
Chairman
Committee on Agriculture, Nutrition, and Forestry

Honorable Saxby Chambliss
Ranking Member

Honorable Barney Frank
Chairman
House Committee on Financial Services

Honorable Spencer Bachus
Ranking Member

NET CHANGES IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES UNDER AMENDMENT NUMBER 3739 TO S. 3217, THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010 (Page 1 of 2)

	By Fiscal Year, in Billions of Dollars										2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
NET CHANGES IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES ^a												
Orderly Liquidation Authority	2.4	0.2	-2.1	-2.8	-2.7	-2.6	-2.9	-3.3	-2.5	-1.2	-5.0	-17.6
Securities and Exchange Commission Regulation	-0.7	-0.5	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-2.5	-4.9
Consumer Financial Protection	*	0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.5	1.0	3.2
Emergency Financial Stability	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.8
Changes Among Financial Regulators	*	-0.2	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-1.5	-4.3
Derivatives Regulation	*	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.8	1.5
Other Financial Oversight and Protection	*	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.7	1.3
Financial Stability Oversight	*	*	*	0.1	0.1	*	*	*	*	*	0.3	0.4
Other Provisions Affecting the Federal Reserve	*	*	*	*	*	*	*	*	*	*	*	0.1
Total Net Change in the Budget Deficit ^b	1.8	*	-2.4	-2.7	-2.7	-2.7	-3.2	-3.6	-2.8	-1.5	-5.9	-19.5
CHANGES IN REVENUES												
Orderly Liquidation Authority ^c	0	4.2	5.2	5.1	5.2	5.2	5.2	5.1	4.8	4.0	19.7	43.9
Securities and Exchange Commission Regulation	1.8	1.9	2.1	2.2	2.3	2.5	2.7	2.9	2.9	3.0	10.3	24.4
Consumer Financial Protection	0	0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.4	1.2
Changes Among Financial Regulators	0	0.2	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	1.7	4.6
Derivatives Regulation	*	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.7	-1.3
Other Financial Oversight and Protection	0	*	*	*	*	0.1	0.1	0.2	0.2	0.2	0.1	0.8
Financial Stability Oversight	0	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.5
Other Provisions Affecting the Federal Reserve	*	*	*	*	*	*	*	*	*	*	*	-0.1
Total Revenues	1.8	6.3	7.7	7.8	8.1	8.3	8.7	8.8	8.6	8.0	31.7	74.1

Continued

NET CHANGES IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES UNDER AMENDMENT NUMBER 3739 TO S. 3217, THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010 (Page 2 of 2)

	By Fiscal Year, in Billions of Dollars										2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
CHANGES IN DIRECT SPENDING												
Orderly Liquidation Authority												
Estimated Budget Authority	2.4	4.4	3.1	2.3	2.4	2.5	2.2	1.8	2.3	2.9	14.6	26.3
Estimated Outlays	2.4	4.4	3.1	2.3	2.4	2.5	2.2	1.8	2.3	2.9	14.6	26.3
Securities and Exchange												
Commission Regulation												
Estimated Budget Authority	1.5	1.5	1.7	1.8	1.9	2.1	2.3	2.4	2.5	2.5	8.3	20.1
Estimated Outlays	1.1	1.5	1.6	1.7	1.9	2.0	2.2	2.4	2.5	2.5	7.8	19.4
Consumer Financial Protection												
Estimated Budget Authority	0.1	0.1	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.5	4.6
Estimated Outlays	*	0.1	0.2	0.5	0.6	0.6	0.6	0.6	0.6	0.6	1.4	4.5
Emergency Financial Stability												
Estimated Budget Authority	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.8
Estimated Outlays	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.8
Changes Among Financial												
Regulators												
Estimated Budget Authority	*	0.1	0.1	*	*	*	*	*	*	*	0.2	0.3
Estimated Outlays	*	0.1	0.1	*	*	*	*	*	*	*	0.2	0.3
Derivatives Regulation												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	0.1	0.2
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	0.1	0.2
Other Financial Oversight and												
Protection												
Estimated Budget Authority	*	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.8	2.2
Estimated Outlays	*	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.8	2.2
Financial Stability Oversight												
Estimated Budget Authority	*	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.9
Estimated Outlays	*	*	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.5	0.9
Total Changes in Direct												
Spending												
Estimated Budget Authority	4.0	6.4	5.6	5.1	5.4	5.7	5.6	5.3	5.9	6.5	26.5	55.4
Estimated Outlays	3.6	6.3	5.4	5.1	5.4	5.6	5.5	5.3	5.8	6.5	25.9	54.6

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

- Positive numbers indicate increases in deficits; negative numbers indicate decreases in deficits.
 - CBO estimates that enacting the bill would decrease budget deficits by \$3.2 billion over the 2010-2014 period and by \$18.0 billion over the 2010-2019 period.
 - The legislation 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. Therefore, the staff of the Joint Committee on Taxation is not currently able to estimate the changes in tax revenue that would result from this provision of the bill.
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