



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 14, 2010

H.R. 4790 **Shareholder Protection Act of 2010**

As ordered reported by the House Committee on Financial Services on July 29, 2010

H.R. 4790 would require corporations that are registered with the Securities and Exchange Commission (SEC) to provide shareholders an opportunity to vote on the corporation's proposed expenditures for certain political activities for the upcoming year. Further, the bill would prohibit security exchanges from listing stocks of corporations that do not require the board of directors to approve political expenditures over \$50,000 or any expenditure that would cause the amount spent on political activities to exceed \$50,000 in a fiscal year. The SEC would be required to develop regulations to enforce the new requirements and to prepare an annual report that assesses compliance.

Based on information from the SEC, CBO estimates that developing and enforcing the new requirements in H.R. 4790 would not significantly increase spending subject to appropriation. Enacting H.R. 4790 could increase collections of civil and criminal penalties, thus increasing federal revenues and direct spending; therefore, pay-as-you-go procedures apply. However, CBO estimates that such collections and spending would not be significant in any year.

The requirements on corporations would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA). In addition, the bill would impose reporting requirements on investment managers and preempt state securities laws. Based on information from the SEC, CBO estimates that the costs of complying with those mandates would be small.

H.R. 4790 also would prevent public or private investors from seeking damages from investment managers on grounds that the manager made investment decisions based on a corporation's political activities. Because of uncertainty about the number of such claims that would be filed, CBO cannot estimate the cost of that mandate and, consequently, cannot determine whether the aggregate costs of intergovernmental or private-sector mandates in the bill would exceed the annual thresholds established in UMRA (\$70 million and \$141 million, respectively, in 2010, adjusted annually for inflation).

The CBO staff contacts for this estimate are Susan Willie (for federal costs) and Elizabeth Cove Delisle and Brian Prest (for the intergovernmental and private-sector impact). The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.