



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 11, 2000

S. 2697
Commodity Futures Modernization Act of 2000

*As ordered reported by the Senate Committee on Agriculture, Nutrition, and Forestry
on June 29, 2000*

SUMMARY

S. 2697 would reauthorize funding for the activities of the Commodity Futures Trading Commission (CFTC) during the 2001-2005 period. The bill would also allow the trading of single stock futures under certain conditions, with oversight being shared by the CFTC and the Securities and Exchange Commission (SEC). In addition, S. 2697 would clarify that certain over-the-counter derivative transactions are outside of the jurisdiction of the CFTC. The bill also would authorize the CFTC to designate boards of trade as contract markets or execution facilities for derivatives transactions.

Assuming appropriation of the necessary amounts, CBO estimates that implementing this legislation would cost \$363 million over the 2001-2005 period. Although most of this cost would be incurred by the CFTC, CBO estimates that the SEC would spend about \$3 million a year to regulate single stock futures. S. 2697 also would increase governmental receipts, because the bill would make single stock futures subject to fees charged by the SEC. Although CBO estimates that this increase in fee collections would not be significant, pay-as-you-go procedures would apply.

S. 2697 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs, if any, would not exceed the threshold established in the act (\$55 million in 2000, adjusted annually for inflation). The bill also contains a new private-sector mandate as defined by UMRA, but CBO estimates the costs of this mandate would not exceed the threshold established in the act (\$109 million in 2000, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2697 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
CHANGES IN SPENDING SUBJECT TO APPROPRIATION^a					
Proposed Changes to CFTC Spending					
Estimated Authorization Level	67	69	72	74	77
Estimated Outlays	60	68	71	73	76
Proposed Changes to SEC Spending					
Estimated Authorization Level	3	3	3	3	3
Estimated Outlays	3	3	3	3	3
Total Changes in Spending					
Estimated Authorization Level	70	72	75	77	80
Estimated Outlays	63	71	74	76	79

a. CBO estimates that enactment of S. 2697 also would result in an insignificant increase in revenues over the 2001-2005 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of fiscal year 2000 and that the necessary amounts will be appropriated by the start of each fiscal year. Provisions related to the regulation of single stock futures would take effect one year after enactment. CBO estimates that S. 2697 would cost \$363 million over the 2001-2005 period, and would have a negligible effect on revenues.

Spending Subject to Appropriation

S. 2697 would reauthorize funding for the activities of the CFTC during the 2001-2005 period. For 2000, the agency received an appropriation of \$63 million. Based on the agency's current budget and adjusting for anticipated inflation, this reauthorization would cost about \$59 million in 2001 and a total of \$343 million over the five-year period.

The bill also would make several changes to the Commodity Exchange Act that would increase the administrative costs of the CFTC. Based on information from the CFTC, CBO estimates that these changes to the CFTC's administrative responsibilities would cost \$1 million a year over the 2001-2005 period. The CFTC would share oversight of single stock futures transactions with the SEC. The bill also clarifies that the CFTC does not have jurisdiction over certain over-the-counter derivatives transactions. The CFTC also would be authorized to designate boards of trade as contract markets or execution facilities for derivatives transactions with the SEC. CBO estimates that these changes to the CFTC's regulatory responsibilities would require the agency to hire new staff.

S. 2697 also would require that the SEC play a significant role in overseeing the market for single stock futures. Based on information from the SEC, CBO estimates that the SEC would have to hire additional staff to handle these new responsibilities. These new personnel would cost about \$3 million a year during the 2001-2005 period.

Finally, CBO estimates that S. 2697 would increase the amount of offsetting collections received by the SEC, although the increase would not be significant. The bill would allow single stock futures to be traded on a national securities association and would therefore make them subject to transaction fees collected by the SEC. Under current law, fees on transactions conducted on national securities associations are recorded as offsetting collections, which are credited as an offset to discretionary spending. However, based on information from the CFTC, the SEC, and private groups, CBO does not expect that the volume of transactions of single stock futures that would be conducted on national securities associations would be large enough to generate a significant increase in offsetting collections.

Revenues

Under current law, transactions conducted on national securities exchanges are also subject to certain SEC fees that are accounted for as governmental receipts (revenues). These fees are equal to 1/300 of a percent of the aggregate dollar amount of securities sales.

S. 2697 would allow the trading of single stock futures on national securities exchanges. By creating a new category of financial transactions that would be subject to SEC fees, this bill would increase revenues collected by the SEC. However, based on information provided by the CFTC, the SEC, and by private groups, CBO estimates that any increase in revenues would not be significant.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting receipts or direct spending. S. 2697 would affect receipts by adding a new set of financial transactions that would be subject to fees collected by the SEC. However, CBO estimates that the amount of additional receipts would not be significant.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 2697 would preempt state laws affecting certain commodities transactions that are conducted in markets regulated by the Commodities Futures Trading Commission. Such a preemption would be a mandate as defined by UMRA. CBO estimates that the costs of this mandate, if any, would not exceed the threshold in that act (\$55 million in 2000, adjusted annually for inflation). The bill would impose no other costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Section 8 of the bill would require a registered futures association to adopt rules requiring a futures commission merchant, a commodity trading advisor, or an introducing broker that recommends a purchase or sale of a futures on a security, to ascertain the suitability of that recommendation for that customer. The national futures association already adopted a “know your customer” rule in 1985. According to industry sources, the requirements of that rule are very similar to the requirements of a suitability rule. Thus, CBO estimates that the direct costs of complying with this mandate would be negligible.

PREVIOUS CBO ESTIMATE

On June 29, 2000, CBO transmitted a cost estimate for H.R. 4541, the Commodity Futures Modernization Act of 2000, as ordered reported by the House Committee on Agriculture on June 27, 2000. Assuming appropriation of the necessary amounts, CBO estimates that H.R. 4541 would cost \$353 million over the 2001-2005 period. In comparison, CBO estimates that the costs of S. 2697 would total \$363 million during that time period. Although the two bills are similar in many respects, CBO estimates that the costs of S. 2697 would be higher because the SEC would require additional staff to regulate the trading of single stock futures on national securities exchanges and associations. S. 2697 also would increase the revenues and offsetting collections received by the SEC, although we estimate that these increases would not be significant.

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