



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 14, 2001

### **S. 143**

### **Competitive Market Supervision Act of 2001**

*As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs  
on March 1, 2001*

#### **SUMMARY**

S. 143 would adjust the fees and assessments that the Securities and Exchange Commission (SEC) is authorized to collect for registrations, mergers, and transactions of securities. Under current law, some of those fees and assessments are recorded in the budget as governmental receipts (revenues), and some are recorded as offsetting collections that are credited against discretionary appropriations for the SEC. The bill would reclassify all SEC fees and assessments as offsetting collections, reduce the fee rates, and require that total collections fall between a lower limit and an upper limit. If implemented, S. 143 would reduce the total amount of SEC fees from an estimated \$2.5 billion in fiscal year 2001 to about \$1.1 billion in 2002. CBO estimates that enacting S. 143 would reduce governmental receipts by \$1.5 billion in 2002 and by \$8.9 billion over the 2002-2006 period. Because S. 143 would affect governmental receipts, pay-as-you-go procedures would apply. Although the bill would change the rates of certain SEC fees that are treated as offsetting collections, CBO estimates that the net budgetary effect of these changes would not be significant, relative to CBO's current baseline estimates.

The bill also would authorize the SEC to increase employees' compensation and benefits to make them comparable to agencies that regulate banking, such as the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA). Implementing the bill's compensation-related provisions would cost about \$59 million in 2002 and \$347 million over the 2002-2006 period, assuming the appropriation of the necessary amounts.

S. 143 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. S. 143 would impose a private-sector mandate on the national securities exchanges and the national securities association. CBO estimates that the direct cost of the mandate would be below the annual threshold established by UMRA for private-sector mandates (\$109 million in 2000, adjusted for inflation).

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 143 is shown in Table 1. The costs of this legislation fall within budget function 370 (commerce and housing credit).

**Table 1. Estimated Budgetary Effects of S. 143**

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
CBO Baseline Estimate of Net SEC Spending						
Estimated Authorization Level <sup>a</sup>	-594	0	0	0	0	0
Estimated Outlays	-620	-156	-54	-62	-86	-97
Proposed Changes						
Estimated Authorization Level	0	65	69	71	73	75
Estimated Outlays	0	59	69	71	73	75
Net SEC Spending Under S. 143						
Estimated Authorization Level <sup>a</sup>	-594	65	69	71	73	75
Estimated Outlays	-620	-97	15	9	-13	-22
<b>CHANGES IN REVENUES</b>						
Estimated Revenues	0	-1,547	-1,601	-1,750	-1,919	-2,097

a. The 2001 level is the estimated net amount appropriated for that year; the gross SEC appropriation for 2001 was \$423 million.

## BASIS OF ESTIMATE

CBO estimates that implementing the compensation-related provisions of S. 143 would increase the gross spending of the SEC by \$347 million over the 2002-2006 period, subject to future appropriations acts. We estimate that enactment of the bill would reduce revenues by \$1.5 billion in 2002 and by \$8.9 billion over the 2002-2006 period by eliminating those SEC fees and assessments that are currently recorded in the budget as revenues. Although the bill would restructure the SEC fees that are recorded as offsetting collections, CBO estimates that the net effect of the bill on these collections would be insignificant, relative to CBO's current baseline estimates of such offsetting collections.

## Spending Subject to Appropriation

S. 143 would allow the SEC to adjust the compensation it offers to its employees. Also, the bill would restructure the fees the agency is authorized to charge as an offset to its discretionary appropriations. CBO estimates that this restructuring should not significantly change the amount of such fees projected to be collected under our baseline assumptions.

**Changes in Gross Spending.** Currently, SEC employees fall into two compensation categories: those subject to the pay scales of the civil service system, and those whose salaries have been adjusted to equal the amounts received by similar employees in the securities industry. S. 143 would authorize the SEC to raise the pay of both types of employees to a level commensurate with the compensation offered by federal banking regulatory agencies. Based on information from the SEC and several of the banking-related agencies, CBO estimates that implementing this provision of the bill would cost \$59 million in 2002 and \$347 million over the 2002-2006 period, assuming the appropriation of the necessary amounts.

**Changes in Offsetting Collections.** S. 143 would restructure all four types of SEC collections: registration fees, merger and tender fees, assessments on the trading of single stock futures, and transaction fees (see Table 2). The bill also would establish an upper and lower limit on the total amount of offsetting collections the SEC may collect in any year. Based on historical information from the securities industry on the number and type of securities registered and traded, and the likelihood that offsetting collections would exceed the upper limit that would be established by the bill, CBO estimates that the fee-related provisions of S. 143 would have no significant effect on the total fees that are recorded as offsetting collections (relative to CBO's baseline).

*Transaction fees.* Under current law, the SEC collects 1/300th of a percent of the aggregate dollars traded through national securities exchanges, national securities associations, brokers, and dealers. The fee rate will decline to 1/800th of a percent for 2007 and thereafter. Currently, fees collected from national securities associations are recorded as offsetting collections, while fees from other sources are recorded as revenues.

Under the bill, all transactions fees would be classified as offsetting collections. Furthermore, the bill would require that the transaction fee rate be established at the beginning of each fiscal year so that transaction fee collections in a given fiscal year will equal a target amount. For a given year, the target amount would be equal to a figure specified in the bill, minus the estimated assessments on trades of single stock futures that would be collected by the SEC in that year.

**Table 2. SEC Fees Under CBO's Baseline Estimates and S. 143**

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
<b>SEC Fees Under CBO's January 2001 Baseline</b>						
Transaction Fees	1,370	1,627	1,887	2,284	2,712	3,189
Registration Fees	1,024	980	953	912	958	999
Merger Fees	84	89	93	97	99	100
Assessments on Single Stock Futures	<u>0</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	2,478	2,697	2,934	3,295	3,771	4,290
<b>SEC Fee Collections Under S. 143</b>						
Transaction Fees	1,370	843	1,020	1,218	1,502	1,821
Registration Fees	1,024	275	280	292	313	335
Merger Fees	84	30	31	32	33	33
Assessments on Single Stock Futures	<u>0</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	2,478	1,149	1,332	1,544	1,850	2,191
<b>Changes</b>						
Transaction Fees	0	-784	-867	-1,066	-1,210	-1,368
Registration Fees	0	-705	-673	-620	-645	-664
Merger Fees	0	-59	-62	-65	-66	-67
Assessments on Single Stock Futures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Changes	0	-1,548	-1,602	-1,751	-1,921	-2,099

S. 143 also would require that the SEC adjust the transaction fee rate during the year so that total SEC fee collections (including fees for registrations, mergers, and transactions, and assessments for trades of single stock futures) would not fall below a specified minimum amount of collections, nor exceed a specified maximum amount of collections. The bill would set the minimum amount equal to the SEC's 2002 appropriation, adjusted annually for changes in inflation, or equal to the amount authorized to be appropriated for the SEC in a given year, whichever is greater. S. 143 would set the maximum amount of collections at a level that is 10 percent above the January 2001 CBO baseline estimate for total SEC collections for fiscal years 2002 through 2011. For fiscal years 2012 and thereafter, the bill would set the ceiling equal to the amount authorized to be appropriated for the SEC.

Taking into account the provisions that would establish a target level, as well as minimum and maximum levels of fees, CBO estimates that implementing S. 143 would yield \$843 million in 2002 from such fees. By comparison, under our current baseline assumptions, CBO estimates \$989 million in offsetting collections from transaction fees in 2002. (Under current law, we also estimate revenues of \$638 million in 2002 from transaction fees.)

*Registration fees.* Under current law, the SEC collects a fee on the registration of securities. The current registration fee is \$200 per \$1 million of the maximum aggregate price for securities that are proposed to be offered during the 2002-2006 period. After 2006, the fee drops to \$67 per \$1 million of the maximum aggregate price for securities that are proposed to be offered. These fees are recorded as governmental receipts (revenues). Current law also requires, subject to appropriation, that the SEC charge an additional registration fee of \$39 per \$1 million of the maximum aggregate price for securities that are proposed to be offered in 2002. Under current law, this added registration fee gradually declines after 2002, until it ends at the end of 2005. These additional fees are recorded as offsetting collections.

S. 143 would eliminate all registration fees that are recorded as governmental receipts and would set fees that are recorded as offsetting collections at \$67 per \$1 million of the maximum aggregate price for securities that are proposed to be offered during the 2002-2006 period. The bill also would change the registration fees for 2007 and thereafter to \$33 per \$1 million of the maximum aggregate price for securities that are proposed to be offered. CBO estimates that under the bill the SEC would collect \$275 million in registration fees in 2002, subject to appropriation. By comparison, we estimate that under the CBO baseline the SEC would collect a total of \$980 million in registration fees in 2002 (\$820 million that would be recorded as revenues and \$160 million in offsetting collections).

*Merger and tender fees.* Under current law, the SEC charges a merger fee equal to \$200 per \$1 million of the value of securities proposed to be purchased as part of a merger. These current fees are also currently recorded as revenues. S. 143 would eliminate the current merger fee and establish a new one that would be recorded as an offsetting collection at the rate of \$67 per \$1 million of the aggregate value of securities proposed to be purchased during the 2002-2006 period. The bill also would establish merger fees for 2007 and thereafter at the rate of \$33 per \$1 million of the aggregate value of securities proposed to be purchased as part of a merger. CBO estimates that under S. 143 the SEC would collect about \$30 million in merger fees in 2002, subject to appropriation. By comparison, under the CBO baseline, we estimate that merger fees would total \$89 million in 2002.

*Assessments on transactions of single stock futures.* The Commodity Futures Modernization Act of 2000 allowed individuals to begin trading futures on individual stocks. The act also established an assessment on these trades equal to 2 cents per transaction through 2006 and 0.75 cents per transaction for 2007 and thereafter. These assessments are currently recorded as governmental receipts (i.e., revenues). Under CBO's baseline, we project that these assessments will total \$1 million in 2002.

S. 143 would reclassify those assessments that are recorded as receipts and would treat them as offsetting collections subject to annual appropriation acts. The rates on these assessments would remain the same as under current law. CBO estimates that, under S. 143, the SEC would collect \$1 million in assessments on trading of single stock futures in 2002 and \$8 million over the 2002-2006 period.

*Summary.* CBO’s January 2001 baseline includes estimated offsetting collections for the SEC totaling about \$1.15 billion in 2002, rising to \$2.2 billion in 2006. We estimate the change in the fee rates paid for registrations, mergers, and transactions, and the reclassification of all SEC fees as offsetting collections would have no significant net effect on the offsetting collections received by the SEC (relative to our baseline projections).

**Revenues**

S. 143 would eliminate or reclassify all fees and assessments on registrations, mergers, and transactions that are currently recorded as revenues. CBO estimates that S. 143 would reduce revenues by \$8.9 billion over the 2002-2006 period, and by \$14.0 billion over the 2002-2011 period.

**PAY-AS-YOU-GO CONSIDERATIONS**

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The changes in governmental receipts that are subject to pay-as-you-go procedures are shown in Table 3. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

**Table 3. Estimated Impact of S. 143 on Direct Spending and Receipts**

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	Not applicable										
Changes in receipts	0	-1,547	-1,601	-1,750	-1,919	-2,097	-921	-933	-1,009	-1,087	-1,176

**ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

S. 143 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

## **ESTIMATED IMPACT ON THE PRIVATE SECTOR**

S. 143 would require each national securities exchange and the national securities association to file monthly with the SEC an estimate of fees and assessments that they are required to pay. Based on information from government and industry sources, CBO estimates that the direct cost of the mandate would be below the annual threshold established by UMRA for private-sector mandates (\$109 million in 2000, adjusted for inflation).

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