



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 3, 2001

H.R. 1088 **Investor and Capital Markets Fee Relief Act**

As ordered reported by the House Committee on Financial Services on March 28, 2001

SUMMARY

H.R. 1088 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 and adjust the fee rates. If implemented, H.R. 1088 would reduce the total amount of SEC fees from an estimated \$2.5 billion in fiscal year 2001 to \$1.3 billion in 2002. CBO estimates that enacting H.R. 1088 would reduce governmental receipts by \$1.5 billion in 2002 and by \$8.9 billion over the 2002-2006 period. Because H.R. 1088 would affect governmental receipts, pay-as-you-go procedures would apply. CBO estimates that implementing H.R. 1088 also would cause the SEC's offsetting collections to increase by about \$126 million in 2002 and \$130 million over the 2002-2006 period, relative to CBO's current baseline estimates.

The bill 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). CBO estimates that implementing the bill's compensation-related provisions would cost about \$362 million over the 2001-2006 period, assuming the appropriation of the necessary amounts.

H.R. 1088 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1088 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 H.R. 1088

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
CBO Baseline Estimate of Net SEC Spending						
Estimated Authorization Level ^a	-594	0	0	0	0	0
Estimated Outlays	-620	-156	-54	-62	-86	-97
Proposed Changes						
Changes in Gross SEC Spending						
Estimated Authorization Level	16	65	69	71	73	75
Estimated Outlays	14	60	69	71	73	75
Changes in Offsetting Collections						
Estimated Authorization Level	0	-126	-2	-1	0	-1
Estimated Outlays	0	-126	-2	-1	0	-1
Changes in Net SEC Spending						
Estimated Authorization Level	16	-61	67	70	73	74
Estimated Outlays	14	-66	67	70	73	74
Net SEC Spending Under H.R. 1088						
Estimated Authorization Level ^a	-578	-61	67	70	73	74
Estimated Outlays	-606	-222	13	8	-13	-23
CHANGES IN REVENUES						
Estimated Revenues	0	-1,494	-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 H.R. 1088 would increase the gross spending of the SEC by \$362 million over the 2001-2006 period, subject to appropriation of the necessary amounts. For purposes of this estimate we assume the bill and supplemental appropriations to implement it will be provided in the next few months. Carrying out the bill's fee-related provisions would increase offsetting collections by about \$126 million in 2002 and \$130 million over the 2002-2006 period, relative to CBO's baseline estimates. Also, we estimate that enacting 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.

Spending Subject to Appropriation

H.R. 1088 would have two effects on the spending of the SEC that are subject to appropriation. First, the bill would authorize the SEC to increase the compensation it offers to its employees. Also, H.R. 1088 would restructure the fees the agency is authorized to charge as an offset to its discretionary appropriations.

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. H.R. 1088 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 \$14 million in 2001, \$60 million in 2002, and \$362 million over the 2001-2006 period, assuming appropriation of the necessary amounts.

Changes in Offsetting Collections. H.R. 1088 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 would reclassify all of these fees as offsetting collections, as of October 1, 2001. Also, the bill would reduce the rates on registration and merger fees effective on October 1, 2001, and on transaction fees and assessments as of 30 days after the enactment of the 2002 appropriation for the SEC. Based on historical information from the securities industry on the number and type of securities registered and traded, CBO estimates that the fee-related provisions of H.R. 1088 would cause the SEC's offsetting collections to rise by \$126 million in 2002 and \$130 million over the 2002-2006 period, 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 reduce the transaction fee rate in 2002 to \$12 per \$1 million of the aggregate dollars traded. For the years 2003 through 2011, the bill would require that

the SEC establish a fee rate before a fiscal year begins that would generate transaction fee collections in that fiscal year equal to 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 H.R. 1088

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SEC Fees Under CBO's January 2001 Baseline						
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
SEC Fee Collections Under H.R. 1088						
Transaction Fees	1,370	758	679	822	975	1,147
Registration Fees	1,024	513	589	650	790	949
Merger Fees	84	56	66	72	84	94
Assessments on Single Stock Futures	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	2,478	1,328	1,335	1,545	1,850	2,191
Proposed Changes						
Transaction Fees	0	-869	-1,208	-1,462	-1,737	-2,042
Registration Fees	0	-467	-364	-262	-168	-50
Merger Fees	0	-33	-27	-25	-15	-6
Assessments on Single Stock Futures	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Changes	0	-1,369	-1,599	-1,750	-1,921	-2,099

CBO estimates that implementing H.R. 1088 would yield \$758 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.

H.R. 1088 would eliminate all registration fees that are recorded as governmental receipts and would set fees that are recorded as offsetting collections at \$125 per \$1 million of the maximum aggregate price for securities that are proposed to be offered in 2002. For the years 2003-2011, the bill would require that the SEC establish a fee rate before a fiscal year begins that would generate registration fee collections in that fiscal year equal to a target amount. CBO estimates that under the bill the SEC would collect \$513 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 fees are also currently recorded as revenues. H.R. 1088 would eliminate the current merger fee and establish a new one that would be recorded as an offsetting collection at a rate equal to the rate for registration fees under the bill. CBO estimates that under H.R. 1088 the SEC would collect about \$56 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.

H.R. 1088 would reclassify those assessments that are recorded as receipts and would treat them as offsetting collections subject to annual appropriation acts. The bill also would change the rates on these assessments to \$0.0072 per transaction during the 2002-2006 period and \$0.0042 per transaction in 2007 and thereafter. CBO estimates that, under H.R. 1088, the SEC would collect \$1 million in assessments on trading of single stock futures in 2002 and \$5 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, transactions, and trades of single stock futures and the reclassification of all SEC fees as offsetting collections would increase the offsetting collections received by the SEC by \$126 million in 2002 and \$130 million during the 2002-2006 period (relative to our baseline projections).

Revenues

H.R. 1088 would eliminate all fees and assessments on registrations, mergers, and transactions that are currently recorded as revenues. CBO estimates that H.R. 1088 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 H.R. 1088 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											
Changes in receipts	0	-1,494	-1,601	-1,750	-1,919	-2,097	-921	-933	-1,009	-1,087	-1,176

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1088 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On March 14, 2001, CBO transmitted a cost estimate for S. 143, the Competitive Market Supervision Act of 2001, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on March 1, 2001. S. 143 contains the provisions in H.R. 1088 that would authorize the SEC to raise the compensation of its employees to levels commensurate with other financial regulatory agencies. S. 143 would also reclassify all SEC fees as offsetting collections and alter the fee rates. However, that bill would change SEC fees in different

ways than H.R. 1088, and S. 143 would require that total offsetting collections fall between a minimum amount and a maximum amount for each year. CBO estimated that S. 143 would reduce revenues by \$8.9 billion over the 2001-2006 period and would have no effect on offsetting collections, relative to the CBO baseline.

Because H.R. 1088 and S. 143 would affect state, local, and tribal governments in the same way, the intergovernmental mandate statements for both bills are identical.

S. 143 contains a private-sector mandate with costs below the annual threshold established by UMRA (\$113 million in 2001, adjusted for inflation). Provisions in the Senate bill 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. H.R. 1088 does not include those provisions and the bill does not contain any private-sector mandates as defined by UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Ken Johnson (226-2860) and Erin Whitaker
Impact on State, Local, and Tribal Governments: Susan Sieg Tompkins
Impact on the Private Sector: Lauren Marks

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis