



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 6, 1998

### **H.R. 1689** **Securities Litigation Uniform Standards Act of 1998**

*As ordered reported by the House Committee on Commerce on June 24, 1998*

#### **SUMMARY**

H.R. 1689 would amend existing law related to class actions involving most types of securities fraud, reauthorize appropriations for the Securities and Exchange Commission (SEC), and require the SEC to study class actions involving securities fraud and state laws related to reciprocal enforcement of subpoenas. Under this bill, certain class actions could not be based on state law and could only be maintained in federal courts. H.R. 1689 would authorize the appropriation of \$351 million for the Securities and Exchange Commission in fiscal year 1999. Assuming appropriation of the authorized amounts, CBO estimates that implementing H.R. 1689 would result in additional SEC spending of \$347 million over fiscal years 1999 and 2000, but that the agency would collect \$375 million in fees in 1999 to more than offset that new spending.

H.R. 1689 would not affect direct spending or receipts; therefore, pay-as-you go procedures would not apply. H.R. 1689 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), because it would preempt state securities laws in order to prohibit most securities-related class-action suits from being adjudicated in state courts. The bill would allow state and local government pension plans to continue to sue at the state level, however. CBO estimates that the budgetary impact on states to comply with this mandate would not be significant. The bill would impose no new private-sector mandates as defined in UMRA.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

For the purposes of this estimate, CBO assumes that H.R. 1689 will be enacted by the end of fiscal year 1998, and that the authorized amount will be appropriated by the start of fiscal year 1999. The estimated budgetary impact of H.R. 1689 is shown in the following table. Outlays have been estimated on the basis of historical spending patterns for SEC. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars						
	1997	1998	1999	2000	2001	2002	2003
<b>SPENDING SUBJECT TO APPROPRIATION</b>							
Net SEC Spending Under Current Law							
Estimated Budget Authority <sup>a</sup>	-62	4	0	0	0	0	0
Estimated Outlays	-20	-72	79	0	0	0	0
Proposed Changes							
SEC Spending							
Authorization Level	0	0	351	0	0	0	0
Estimated Outlays	0	0	270	77	0	0	0
Offsetting Collections							
Estimated Authorization Level	0	0	-375	0	0	0	0
Estimated Outlays	0	0	-375	0	0	0	0
Net SEC Spending Under H.R. 1689							
Estimated Authorization Level <sup>a</sup>	-62	4	-24	0	0	0	0
Estimated Outlays	-20	-72	-26	77	0	0	0

a. The 1997 and 1998 levels are the net amounts appropriated for those years (gross appropriations less offsetting collections).

## BASIS OF ESTIMATE

Title I of H.R. 1689 would amend existing law so that class actions involving most types of securities fraud could not be based on state law and could only be maintained in federal courts. CBO estimates that implementing Title I would have no significant impact on the federal budget. Recent data on the number of securities-related class actions brought under state law suggest that fewer than 100 cases per year might shift to federal courts as a result of this bill. Although class actions often involve complex and time-consuming issues, CBO estimates that the federal court system would not incur significant costs to process that number of new cases.

Title II would authorize the appropriation of \$351 million for the SEC to carry out its functions, powers, and duties in fiscal year 1999. Assuming appropriation of the authorized amount, CBO estimates that the SEC would spend an additional \$347 million over the next two years. The agency's appropriations are offset by collections of fees on certain securities transactions. CBO estimates that the amount of fees to be credited to appropriations will total \$375 million in 1999. H.R. 1689 also would require the SEC to submit a report within two years after the date of enactment, describing its efforts to promote state laws related to

reciprocal enforcement of subpoenas. Finally, the bill would require SEC to report annually the nature of the cases affected by H.R. 1689, the extent to which H.R. 1689 adversely affects the protection of investors or the public interest, and the alternatives to maintaining class actions involving most types of securities fraud only in federal courts. CBO assumes that the costs for both reports would be covered by the authorized funding level for 1999.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

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

H.R. 1689 contains an intergovernmental mandate as defined in UMRA, because it would preempt state securities laws in order to prohibit most securities-related class-action suits from being adjudicated in state courts. The bill would allow state and local government pension plans to continue to sue at the state level, however. CBO estimates that the impact of this mandate on state budgets would not be significant.

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

The bill would impose no new private-sector mandates as defined in UMRA.

### **PREVIOUS CBO ESTIMATE**

On May 1, 1998, CBO transmitted an estimate of S. 1260, the Securities Litigation Uniform Standards Act of 1998, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on April 29, 1998. The Senate bill included neither the reauthorization for SEC nor the required reports, so CBO estimated that it would have no significant impact on the federal budget.

**ESTIMATE PREPARED BY:**

Federal Costs: Mark Hadley

Impact on State, Local, and Tribal Governments: Pepper Santalucia

**ESTIMATE APPROVED BY:**

Robert A. Sunshine

Deputy Assistant Director for Budget Analysis