CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 3, 2009

H.R. 3890
Accountability and Transparency in Rating Agencies Act

As ordered reported by the House Committee on Financial Services on October 28, 2009

SUMMARY

H.R. 3890 would expand recordkeeping and reporting requirements on credit rating agencies that are registered with the Securities and Exchange Commission (SEC). The bill also would require three federal bank regulators to establish uniform standards of creditworthiness. Finally, H.R. 3890 would require the SEC and the Government Accountability Office (GAO) to prepare several reports for the Congress related to the credit rating industry.

CBO estimates that implementing H.R. 3890 would cost $33 million over the 2010-2014 period, assuming appropriation of the necessary amounts. Further, enacting the bill could increase revenues because additional civil penalties could be imposed for violations of new regulations. CBO expects that any increase would not be significant because of the small number of violations that would probably occur. Enacting H.R. 3890 would not have a significant effect on direct spending.

H.R. 3890 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 3890 would impose private-sector mandates, as defined in UMRA, on credit rating agencies that are registered with the SEC and on issuers of certain securities. Based on information from industry sources, CBO estimates the aggregate cost to comply with the mandates in the bill would fall below the annual threshold for private-sector mandates established in UMRA ($139 million in 2009, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3890 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					
	2010	2011	2012	2013	2014	2010-2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	3	7	8	8	8	34
Estimated Outlays	3	6	8	8	8	33

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3890 will be enacted early in calendar year 2010, that the necessary amounts will be appropriated near the start of each fiscal year, and that spending will follow historical patterns for the SEC.

Spending Subject to Appropriation

Under current law, credit rating agencies that are registered with the SEC, known as nationally recognized statistical rating organizations (NRSROs), are required to follow certain recordkeeping and disclosure rules. H.R. 3890 would expand those rules and require the SEC to examine each NRSRO at least annually. The bill also would require the SEC and GAO to prepare several studies and reports for the Congress related to the credit rating industry.

Based on information from the SEC, CBO estimates that the agency would need to add 35 employees by fiscal year 2011 to undertake the additional examination and oversight activities required under the bill. Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 3890 would increase spending by $33 million over the 2010-2014 period. That amount would cover the cost of salaries and benefits, overhead, preparing reports, and upgrading information technology systems.

H.R. 3890 also would require the SEC and the Department of the Treasury to develop new standards of creditworthiness to be used when examining certain entities and transactions. CBO estimates that implementing this provision would have an insignificant effect on spending subject to appropriation.

Direct Spending and Revenues

H.R. 3890 would require three federal bank regulators—the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC)—to develop new standards of creditworthiness to be used when examining regulated entities. Any increase in costs to the OCC and FDIC to develop those standards would be recovered through increased fees and insurance premiums, therefore, CBO estimates that these provisions would have no significant effect on direct spending over the 2010-2019 period.

Net spending by the Federal Reserve is recorded in the federal budget as a change in revenue. Based on information from the Federal Reserve, CBO expects that the new regulatory activities would have no significant effect on the Federal Reserve's workload or budget and thus would have no significant impact on the federal budget.

Enacting H.R. 3890 also could affect revenues because additional civil penalties could be imposed for violations of new regulations, but we expect that any such increases would not be significant because of the relatively small number of violations likely to occur.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3890 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

H.R. 3890 would impose private-sector mandates, as defined in UMRA, on credit rating agencies that are identified as NRSROs and registered with the SEC. The bill would require NRSROs to comply with several requirements to be established by the SEC with respect to:

- Disclosures to clients and to the public,
- Information to be submitted to the SEC,
- Policies that address conflicts of interest,
- Duties for compliance officers,
- Supervising employees and tracking employee transitions, and
- Services provided that are unrelated to credit-rating services.

The bill also would impose disclosure requirements on issuers of certain financial products and corporate debt. Such issuers would be required to disclose to the public any preliminary credit ratings on their products received from NRSROs. In addition, issuers of structured securities would be required to provide certain information to NRSROs.

According to the SEC, there are currently 10 NRSROs, and many of the requirements under the bill involve information that is readily available or make only incremental changes to current business practices and regulations. Based on information from the SEC and industry sources, CBO estimates that the incremental cost for credit-rating agencies and issuers to comply with the requirements established under the bill would fall below the annual threshold for private-sector mandates established in UMRA ($139 million in 2009, adjusted annually for inflation).

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