



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 30, 2009

H.R. 3269 **Corporate and Financial Institution Compensation** **Fairness Act of 2009**

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

H.R. 3269 would require all companies whose stock is traded on public exchanges to allow shareholders to approve, in nonbinding votes, the compensation received by executives and certain compensation agreements between executives and an acquiring entity. The bill also would require certain institutional investment managers to report at least annually on how they voted on any company's shareholder votes regarding compensation. H.R. 3269 would establish standards to ensure the independence of members of a company's compensation committee and the consultants and other advisors that provide support to such a committee. In addition, H.R. 3269 would require financial institutions to disclose to federal regulators the structure of any employee compensation agreements that include performance incentives.

The bill would require the Securities and Exchange Commission (SEC) as well as the federal financial regulatory agencies—the Federal Deposit Insurance Corporation (FDIC), National Credit Union Association (NCUA), Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Housing Finance Agency (FHFA), and the Federal Reserve—to develop regulations to implement the bill's requirements, including regulations to restrict the use of certain employee compensation structures if they would pose a risk to a financial institution or to the economy. The bill also would require the Government Accountability Office (GAO) to conduct a study to determine whether there is a relationship between companies' compensation structures and their risk-taking behavior.

Based on information from the SEC and GAO, CBO estimates that implementing H.R. 3269 would cost about \$1 million in 2010 to develop regulations and prepare reports to the Congress, and less than \$500,000 per year thereafter for the SEC to monitor compliance by companies affected by the regulations. Such spending would be subject to the availability of appropriated funds.

Any additional costs to the OCC, the OTS, and the FHFA as a result of enacting H.R. 3269 would be recorded on the budget as direct spending and offset by income from annual fees collected by those agencies for their administrative expenses. Similarly, the FDIC and NCUA would recover any added costs when they adjust the premiums and fees paid by insured depository institutions. Thus, CBO estimates that enacting the bill would have a negligible effect on net direct spending over the 2010-2014 and 2010-2019 periods.

The budgetary effects on the Federal Reserve would be recorded as changes in revenues (governmental receipts). CBO expects that implementing H.R. 3269 would not have a significant effect on the workload of the Federal Reserve and anticipates that existing resources would be used to comply with the bill's requirements. Therefore, we estimate that enacting this bill would not have a significant effect on revenues.

H.R. 3269 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

The requirements of H.R. 3269 would impose several private-sector mandates as defined in UMRA on publicly traded companies, financial institutions, institutional investment managers, and national securities exchanges and associations. Because the cost of some of the mandates in the bill would depend on federal regulations yet to be established, CBO cannot determine whether the total cost of those mandates would exceed the annual threshold established in UMRA for private-sector mandates (\$139 million in 2009, adjusted annually for inflation).

The CBO staff contacts for this estimate are Susan Willie (for federal costs), Barbara Edwards (for federal revenues), and Brian Prest (for the private-sector impact). This estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.