



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 2, 2012

### **H.R. 3606** **Jumpstart Our Business Startups Act**

*As posted on the Web site of the House Committee on Rules on February 27, 2012*

Under current law, companies intending to offer securities to be traded on public exchanges must, in certain circumstances, register those securities with the Securities and Exchange Commission (SEC). H.R. 3606 would make several changes to those registration requirements. The bill also would allow issuers to advertise to the general public the availability of a private offering, that is, sales of securities that are made to a limited number of eligible investors. Finally, H.R. 3606 would exempt emerging growth companies, as defined in the bill, from certain disclosure, auditing, and reporting requirements.

Based on information from the SEC, CBO estimates that the SEC would require 40 additional staff positions to handle new review and enforcement activities that would result from changes under the bill. CBO estimates that implementing H.R. 3606 would cost about \$50 million over the 2012-2017 period, assuming appropriation of the necessary amounts. Further, under current law, the SEC is authorized to collect fees to offset the cost of its annual appropriation each year; therefore, CBO estimates that the net cost to implement the provisions of H.R. 3606 would not be significant, assuming annual appropriation actions consistent with the agency's authorities.

Enacting H.R. 3606 would increase both direct spending and revenues by amending provisions of law that affect the activities of the Public Company Accounting Oversight Board (PCAOB); therefore, pay-as-you-go procedures apply. The PCAOB, whose spending authority is not subject to appropriation action, is authorized to collect fees to offset its operating expenses. Those fees are recorded in the budget as revenues. CBO estimates that the effect on both revenues and direct spending would be insignificant over the 2012-2022 period.

H.R. 3606 would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) by prohibiting states from requiring issuers of some securities to register the securities with the state, or to pay registration fees, prior to issuance. As defined in UMRA, the direct costs of a mandate include any amounts that state governments would be prohibited from raising in revenues as a result of a mandate.

The cost of the mandate would be the amount of fee revenue that states would be precluded from collecting. Based on information from the SEC, states, and industry sources, CBO estimates that forgone revenues would be small and would not exceed the threshold established in UMRA for intergovernmental mandates (\$73 million in 2012, adjusted annually for inflation.)

H.R. 3606 would impose private-sector mandates, as defined in UMRA, on national securities associations registered with the SEC. Such associations, along with the SEC, govern the conduct of association members with regard to transactions related to securities. The bill would prohibit national securities associations from issuing rules to restrict certain oral and written communications related to public offerings of emerging growth companies. Currently, only one association is registered with the SEC—a self-regulatory organization for securities firms, brokers, and dealers. In addition, to the extent that the SEC would increase fee collections to recover any additional costs incurred to handle new review and enforcement activities, the bill could impose a mandate on private entities. Based on information from the SEC, CBO estimates that the cost of the mandates would be small, relative to the annual threshold established in UMRA for private-sector mandates (\$146 million in 2012, adjusted annually for inflation).

In 2011, CBO transmitted cost estimates for the following bills as ordered reported by the House Committee on Financial Services:

- H.R. 1070, the Small Company Capital Formation Act of 2011 on September 13, 2011;
- H.R. 2167, The Private Company Flexibility and Growth Act and H.R. 2930, the Entrepreneur Access to Capital Act on October 28, 2011;
- H.R. 2940, the Access to Capital for Job Creators Act on October 26, 2011; and
- H.R. 1965, a bill to amend securities laws to establish certain thresholds for shareholder registration, and for other purposes on October 31, 2011.

H.R. 3606 incorporates provisions similar to those bills, and the CBO cost estimates for similar provisions are the same.

The CBO staff contacts for this estimate are Susan Willie (for federal costs), Elizabeth Cove Delisle (for the impact on state and local governments), and Paige Piper/Bach and Vi Nguyen (for the impact on the private sector). This estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.