CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 5, 2013

H.R. 992
Swaps Regulatory Improvement Act

As ordered reported by the House Committee on Agriculture on March 20, 2013

H.R. 992 would allow certain financial firms to retain their financial portfolios containing swaps while remaining eligible for assistance from the Federal Reserve and Federal Deposit Insurance Corporation (FDIC). A swap is a contract between two parties to exchange payments based on the price of an underlying asset or change in interest, exchange, or other reference rate. Swaps can be used to hedge or mitigate certain risks associated with a firm's traditional activities, such as interest rate risk, or to speculate based on expected changes in prices and rates.

CBO estimates that enacting this legislation would not have a significant impact on the net cash flows of the Federal Reserve or the FDIC over the next 10 years. Enacting this legislation could affect direct spending and revenues; therefore, pay-as-you-go procedures apply. However, CBO estimates that any such effects would be insignificant for the next 10 years.

Under current law, federal assistance is not available to any swap dealer or major swap participant registered with the Securities and Exchange Commission or the Commodity Futures Trading Commission. Federal assistance includes access to any Federal Reserve credit facility and discount window (with some exception) and FDIC deposit insurance and guarantees. This prohibition does not apply to a major swap participant that is an insured depository institution (IDI) or an IDI acting as a swaps dealer for hedging purposes or for swaps involving bank-permissible securities. (Such swaps include those that reference interest rates, currencies, government securities, and precious metals. Examples of non-permissible swaps include equity swaps, commodity and agriculture swaps, energy swaps, and metal swaps excluding gold and silver.) Under current law, IDIs that do not meet these exceptions must "push out" their swaps portfolio to a separately capitalized affiliate if the firm is part of a financial holding company, or cease these activities altogether.

Similar to the exemption currently granted to IDIs, H.R. 992 would allow uninsured U.S. branches or agencies of a foreign bank to engage in certain permissible swap activities and to push out others to an affiliate without jeopardizing access to federal assistance. In addition, the legislation would expand permissible swap activities to exclude only swaps based on asset-backed securities that are unregulated or not of a credit quality established by regulation.

Enacting this legislation could affect direct spending and revenues if a change in swaps activity affects the financial stability of an IDI or other entity with access to assistance from the Federal Reserve and the FDIC. Because current law only affects IDIs that are swaps dealers and a small percentage of swap contracts, CBO estimates that any changes to the net cash flows of either agency would be insignificant for the next 10 years.

H.R. 992 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contacts for this estimate are Daniel Hoople and Barbara Edwards. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.