CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 13, 2009

H.R. 3818
Private Fund Investment Advisers Registration Act of 2009

As ordered reported by the House Committee on Financial Services on October 27, 2009

SUMMARY

H.R. 3818 would require individuals and organizations that provide investment advice to private investment funds to register with the Securities and Exchange Commission (SEC). The bill would authorize the SEC to exempt advisers that provide services to venture capital funds from registration requirements. H.R. 3818 also would require the Government Accountability Office (GAO) to prepare a report to the Congress on the annual costs of the new registration and reporting requirements to investment advisers and their clients.

Based on information from the SEC, CBO estimates that implementing the provisions of H.R. 3818 would cost $140 million over the 2010-2014 period, assuming appropriation of the necessary amounts. CBO estimates that enacting H.R. 3818 would not affect revenues or direct spending.

H.R. 3818 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.

By placing new requirements on investment advisers of private investment firms, H.R. 3818 would impose private-sector mandates, as defined in UMRA. Based on information from the SEC and industry sources, CBO estimates that the aggregate cost of complying with the mandates would not exceed the annual threshold established in UMRA for private-sector mandates ($139 million in 2009, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3818 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	9	29	36	36	37	147
Estimated Outlays	7	26	35	36	36	140

BASIS OF ESTIMATE

Based on information from the SEC, CBO estimates that the SEC would add 150 employees by fiscal year 2011 to write regulations and undertake the additional examination and enforcement activities required by the bill (about a 4 percent increase over its 2009 staffing levels). Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 3818 would cost $140 million over the 2010-2014 period. That amount would cover the cost of salaries and benefits, overhead, preparation of reports, and upgrades to information technology systems. CBO estimates that enacting H.R. 3818 would not affect revenues or direct spending.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3818 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 3818 would impose private-sector mandates, as defined in UMRA, on individuals and firms that provide investment advice to private investment funds. Based on information from the SEC and industry sources, CBO estimates that the aggregate cost of complying with the mandates would not exceed the annual threshold established in UMRA for private-sector mandates ($139 million in 2009, adjusted annually for inflation).

The bill would require investment advisers of hedge funds and private equity firms to register with the SEC. The advisers would be subject to existing SEC requirements for registered funds. Approximately 1,300 investment advisers would be affected by the new registration requirements. According to industry experts, the expenses for those advisers to prepare for the registration process would average less than $30,000 per firm. Advisers also would incur ongoing costs to comply with SEC requirements. Based upon information from industry sources and the SEC, CBO estimates that the cost of the mandate would be small relative to the annual threshold.

Additionally, the bill would require all investment advisers for private funds to maintain records and provide to the SEC, if requested, certain financial information related to the assets held by the firm. Industry sources and the SEC indicate that the information required under the bill is readily available to most firms. Therefore, CBO estimates this mandate would not require firms to incur significant costs.

ESTIMATE PREPARED BY:

Federal Costs: Susan Willie
Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle
Impact on the Private Sector: Samuel Wice and Paige Piper/Bach

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis