CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 16, 2001

H.R. 3004
Financial Anti-Terrorism Act of 2001

As ordered reported by the House Committee on Financial Services on October 11, 2001

SUMMARY

H.R. 3004 would expand the powers of federal financial regulators to prevent money laundering, internet gambling, and smuggling of currency. It also would establish new federal crimes relating to such acts. H.R. 3004 would authorize the appropriation of such sums as necessary for each of fiscal years 2002 through 2005 for the Financial Crimes Enforcement Network (FINCEN), an agency in the Department of the Treasury that collects data from banks and other financial institutions and serves as a clearinghouse for financial intelligence. The bill would authorize the Secretary of the Treasury, through financial regulators, to impose special requirements on U.S. financial institutions if the Secretary suspects the transactions of their foreign clients are tied to money laundering.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 3004 would cost about $36 million in fiscal year 2002 and about $210 million over the 2002-2006 period, mostly for FINCEN. This estimate assumes adjustments for anticipated inflation. Without such adjustments, we estimate that implementation would cost $202 million over the 2002-2006 period. H.R. 3004 would affect direct spending and receipts, so pay-as-you-go procedures would apply, but CBO estimates that any such effects would be less than $500,000 a year.

H.R. 3004 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) because it would impose requirements on certain state and local agencies and because it includes a preemption of state laws. CBO estimates that the total cost of complying with those mandates would be small, and would not exceed the threshold established in UMRA ($56 million in 2001, adjusted annually for inflation).

The bill also contains private-sector mandates as defined in UMRA. The bill would impose new information collection, reporting, and recordkeeping requirements on financial institutions and agencies as defined in the bill. Because those new requirements would

depend on specific regulations that would be established by the Secretary of the Treasury, CBO cannot determine whether the direct cost to the private sector would exceed the annual threshold specified in UMRA ($113 million in 2001, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2002 and that the necessary amounts will be appropriated each year. The estimated budgetary impact of H.R. 3004 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 750 (administration of justice).

	By Fiscal Year, in Million of Dollars				
	2002	2003	2004	2005	2006
CHANGES IN SPENDING SUBJECT TO APPROPRIATION [a]					
FINCEN					
Estimated Authorization Level [b]	48	49	51	52	0
Estimated Outlays	33	49	50	52	15
Administrative Costs to Regulatory Agencies					
Estimated Authorization Level	2	2	2	2	2
Estimated Outlays	2	2	2	2	2
Reports by Department of Treasury					
Estimated Authorization Level	1	c	c	c	c
Estimated Outlays	1	c	c	c	c
Total					
Estimated Authorization Level	51	51	53	54	2
Estimated Outlays	36	51	52	54	17

a. The bill also would affect direct spending and revenues, but CBO estimates that those changes would each be less than $500,000 a year.
b. FINCEN received an appropriation of $38 million for fiscal year 2001. For fiscal year 2002, there is no authorization in current law for the agency and a full-year appropriation has not yet been enacted.
c. Less than $500,000.

BASIS OF ESTIMATE

CBO estimates that implementing H.R. 3004 would cost about $50 million annually for FINCEN, about $2 million annually for increased administrative costs at agencies that regulate financial institutions, and about $1 million in 2002 for additional reports by the Secretary of the Treasury. In addition to these effects on discretionary spending, the bill also would have a negligible effect on the collection and spending of civil and criminal penalties. Finally, the legislation would have a small effect on the operating costs of the Federal Deposit Insurance Corporation (FDIC).

Spending Subject to Appropriation

FINCEN. H.R. 3004 would authorize the appropriation of such sums as necessary for FINCEN for each of fiscal years 2002 through 2005. Based on information from the agency, CBO estimates that FINCEN would need about $46 million in 2002 to carry out its current statutory responsibilities and an additional $2 million to perform new duties required by the bill. Thus, CBO estimates that implementing H.R. 3004 would require appropriations of $48 million in fiscal year 2002 and $200 million over the 2002-2005 period, assuming annual adjustments for inflation.

Administrative costs. H.R. 3004 would authorize the Secretary of the Treasury to impose special measures on U.S. financial institutions if the Secretary suspects the transactions of their foreign clients are tied to money laundering. Such measures would be implemented by the Department of the Treasury, the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission, and other financial regulators, and could include increasing recordkeeping and reporting requirements and regulating or prohibiting certain types of financial accounts. Based on information from the affected agencies, CBO estimates that implementing H.R. 3004 would cost a total of about $2 million a year over the 2002-2006 period. Most of these funds would pay for additional SEC staff to examine the records of investment advisors and investment companies for transactions that may involve money laundering, and to oversee the efforts of self-regulating securities markets to detect money laundering.

Reports. H.R. 3004 would require the Department of Treasury to develop regulations and prepare studies for the Congress relating to financial crimes. CBO estimates these requirements would cost $1 million in fiscal year 2002 and less than $500,000 in each of the subsequent years.

Direct Spending and Revenues

Trustees' Administrative Costs. The National Credit Union Administration (NCUA), Office of the Comptroller of the Currency, and the Office of Thrift Supervision charge fees to the institutions they regulate to cover all of their administrative costs; therefore, any additional spending by these agencies to implement the bill would have no net budget effect. That is not the case with the FDIC, however, which uses deposit insurance premiums paid by all banks to cover the expenses it incurs to supervise state-chartered banks. The bill would cause a small increase in FDIC spending, but would probably not affect its premium income. In any case, CBO estimates that imposing special measures would increase direct spending and offsetting receipts for those agencies by less than $500,000 a year over the 2002-2006 period.

Bureau of Engraving and Printing. H.R. 3004 would allow the Bureau of Engraving and Printing (BEP) to impose charges for any BEP services provided to any foreign government or any territory of the United States. Because foreign governments or territories of the United States would pay BEP for the full cost of producing any documents, and because BEP has the authority to retain and spend such collections without further appropriation this would have no significant net budgetary impact.

Additional Fines. Enacting H.R. 3004 would establish civil and criminal fines for new crimes that would be established by the bill. Civil fines are classified as governmental receipts (revenues). Criminal fines are recorded as receipts and deposited in the Crime Victims Fund, and spent without further appropriation action. Based on information from the Department of the Treasury and the Department of Justice, CBO estimates that any net increase in collections would not be significant because of the small number of individuals that are likely to be subject to such fines.

Federal Reserve. Budgetary effects on the Federal Reserve are also recorded as changes in revenues. Based on information from the Federal Reserve, CBO estimates that enforcing the special requirements on U.S. Financial Trustees under the bill would reduce such revenues by less than $500,000 a year over the 2002-2006 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you go procedures for legislation affecting direct spending or receipts. CBO estimates that enacting H.R. 3004 would affect direct spending and governmental receipts but that there would be no significant impact in any year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3004 contains intergovernmental mandates as defined in UMRA, but CBO estimates that the total cost of complying with these mandates would be small, and would not exceed the threshold established in that act ($56 million in 2001, adjusted annually for inflation). Provisions in several sections of this bill would place new reporting, monitoring, recordkeeping, and other procedural requirements on financial institutions. (Financial institutions include certain state and local agencies acting in that capacity.) Largely because the number of affected agencies would be very small, CBO estimates that state and local governments would incur minimal costs to comply with these requirements. Another provision would impose a mandate by prohibiting employees of state, local, tribal, and territorial governments from disclosing certain information.

This bill also includes a preemption of state and local laws. It would require consumer reporting agencies to furnish a report and all other information in a consumer's file, without notifying the consumer, to a government agency authorized to conduct investigations, intelligence, and or counterintelligence activities. The legislation would explicitly preempt state law by exempting these agencies from liability for violating the constitution of any state, or the law or regulations of any state or local government. Such a preemption would be a mandate under UMRA. CBO estimates, however, that it would not affect the budgets of state, local, or tribal governments, because, while it would limit the application of state law, it would impose no duty on states that would result in additional spending.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill also contains private-sector mandates as defined in UMRA. The bill would impose new information collection, reporting, and recordkeeping requirements on financial institutions and agencies as defined in the bill. Because those new requirements would depend on specific regulations that would be established by the Secretary of the Treasury, CBO cannot determine whether the direct cost to the private sector would exceed the annual threshold specified in UMRA ($113 million in 2001, adjusted annually for inflation).

Although H.R. 3004 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, the bill would not create a new private-sector mandate. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, H.R. 3004 does not contain a new mandate relative to current law.

H.R. 3004 would authorize federal banking regulators to require depository institutions that have knowingly participated in transactions with unlawful Internet gambling businesses to cease doing so. This provision would not create a new private-sector mandate for depository institutions because federal banking regulators already have such powers under current law.

ESTIMATE PREPARED BY:

Federal Spending: Mark Grabowicz, Mark Hadley, Ken Johnson, Matthew Pickford, and Lanette Walker

Federal Revenues: Carolyn Lynch and Erin Whitaker

Impact on State, Local, and Tribal Governments: Susan Sieg Tompkins

Impact on the Private Sector: Jean Talarico

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis