CHOICE Act Equals at Least $10 Billion in Deregulation

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This week, the House will vote on the "CHOICE Act," which makes significant amendments to the 2010 "Dodd-Frank" financial reform bill. Because much of the law is deregulatory, although the CHOICE Act could result in far higher leverage standards, the American Action Forum (AAF) quantified the possible regulatory cost savings of the bill. Based on previous benefit-cost analysis, AAF found the CHOICE Act could eliminate $10 billion in annual regulatory costs and save 10.3 million hours of paperwork. For perspective, in 2013, regulators only finalized $9.4 billion in annual regulatory costs. Thus, the bill could remove the equivalent of an entire year of regulation. In addition, removing 10.3 million hours of paperwork is equal to allowing 5,166 full-time employees to no longer fill out federal forms and recordkeeping requirements.

Regulatory Cost Savings

The CHOICE Act repeals several notable rules from Dodd-Frank, and the Fiduciary rule, finalized last year by the Department of Labor. The table below displays the annual cost of each regulation when initially published.

Regulation	**Annual Cost (in millions)**	**Paperwork Hours**
Volcker Rule	$4,300	2,392,440
Fiduciary Rule	$2,000	3,117,700
Requirements for SIFIs	$2,000	241
Conflict Minerals	$609	2,225,273
Resource Extraction	$590	217,408
Pay Ratio Disclosure	$526	2,367,573
Recordkeeping: Orderly Liquidation Authority	$1.2	11,205
Totals	**$10 billion**	**10.3 million hours**

According to AAF's RegRodeo, two of the three most expensive Dodd-Frank regulations would be repealed, Conflict Minerals and the Volker rule. As the CHOICE Act notes, the former was struck down by a federal court and the Resource Extraction rule was repealed using the Congressional Review Act (CRA) in 2017. However, the statutory mandates remain on the books for both regulations. The CHOICE Act removes some of the uncertainty for the future of these measures by repealing them through legislation.

The CHOICE Act places special attention on regulations that had nothing to do with addressing market failures from the Great Recession, improving capital requirements, or enhancing transparency of shadow banking. There are several regulations from Dodd-Frank that can be considered "shaming" rules. As the detailed summary of the CHOICE Act notes, "The Dodd-Frank Act has accelerated a troubling trend in which the securities laws have been hijacked by those more interested in scoring political points than enhancing capital markets or investor protection."

The "Conflict Minerals" and "Resource Extraction" rules had nothing to do with the financial crisis, yet they crept into Dodd-Frank because of animus toward large corporations that deal with diamonds in the Democratic Republic of Congo or with foreign governments in Africa. Repealing these measures will do nothing to increase the chances of another financial crisis.

Likewise, during passage of Dodd-Frank, legislators also included a provision that would mandate that companies calculate the ratio between executive pay and the median pay of all employees in the company worldwide. Nevermind that there are plenty of available data, legislators wanted each large corporation to collect the information and devote employee resources to provide a figure. The cost for this fruitless exercise is more than half-a-billion dollars annually. Again, repealing it will do nothing to diminish investor protection or weaken the financial system.

Omitted from the totals above, $10 billion in costs savings and 10.3 million fewer paperwork hours, are the full benefits of repealing Orderly Liquidation Authority. The costs listed are merely the paperwork and reporting burdens. Unfortunately, since Dodd-Frank implementation was the province of many independent, financial regulators, they conducted few comprehensive benefit-cost analyses. Thus, the costs above reflect only seven of the many rules the CHOICE Act would repeal, and are based from prospective, not retrospective analyses of implementation costs.

Fiscal Cost Savings

In addition to the potential regulatory savings, the Congressional Budget Office (CBO) has provided figures for the fiscal impact of the bill. According to CBO, the legislation would reduce federal deficits by $24 billion during the next decade. This is accomplished through a $30 billion reduction in direct spending, but revenues would also decline by nearly $6 billion (the effect of a modest tax cut). CBO concludes by noting there is an incredible degree of uncertainty in some of its figures. "Those estimates are subject to considerable uncertainty, in part because they depend on the probability in any year that a systemically important firm will fail. That probability is small under both current law and under the legislation, but it is hard to predict." For those worried the CHOICE Act will greatly elevate the risk of another financial crisis, CBO's statement should assuage those fears.

Possible Costs

The CBO does note that the CHOICE Act would trigger the Unfunded Mandates Reform Act, imposing at least

$156 million in private-sector mandates. However, the legislation would also generate nearly $10 billion in regulatory savings. Thus, on net, there is little doubt the bill is deregulatory.

Reducing regulation is not proposed for its own sake. In return for the repeal of some rules, a regulatory “off ramp” is created for well-capitalized institutions. Companies that maintain a leverage ratio of 10 percent will receive relief from Dodd-Frank’s supervisory regime and Basel III’s capital and liquidity standards.

As CBO notes, and as the bill contemplates, this 10 percent leverage requirement is not free and some companies might balk at the higher standards. Currently, the largest banks have a leverage ratio of 6.9 percent, so a 44 percent increase in a company’s ratio could impose notable burdens. To receive regulatory relief, the CHOICE Act predicts companies would, “need to raise hundreds of billions of dollars in new equity.”

There is at least one method to quantify these higher capital standards. In previous regulation, analyses have monetized the “foregone tax benefits” of more capital. For example, here is how the Treasury Department and the Federal Reserve explained these costs in 2013, “Using an estimated interest rate on debt of 6 percent, the Board estimated that the annual tax benefits foregone on $11.3 million of capital switching from debt to equity is approximately $6,391 per year ($1.08 million * 0.06 (interest rate) * 0.094 (median marginal tax savings)).” These tax benefits are foregone because payments on debt, not capital, are tax deductible, so more leverage in the financial sector actually reduces corporate taxes.

Unlike the example above, with just $11.3 million in capital switching, the figures would range from $200 billion to $900 billion, if we take the “hundreds of billions” language from the CHOICE Act literally. Based on the formula on foregone tax benefits above, here are the possible costs from higher leverage requirements:

Increased Capital	**Foregone Tax Benefit Costs**
$200 billion	$1.1 billion
$300 billion	$1.6 billion
$400 billion	$2.2 billion
$500 billion	$2.8 billion
$600 billion	$3.3 billion
$700 billion	$3.9 billion
$800 billion	$4.5 billion
$900 billion	$5.0 billion

Average	**$3.1 billion**

Above, the foregone tax costs could range from $1.1 billion to $5 billion, with an average of $3.1 billion. These would not represent all the costs to financial institutions, however. There is some degree of debate over higher capital standards, with one side noting they are essential to avoiding another crisis, and the other highlighting how well-capitalized institutions are currently. Regardless, banks will obviously weigh the benefits of a lighter regulatory regime against the costs (and possible benefits) of capital standards that are roughly 44 percent higher.

Conclusion

The CHOICE Act is a sharp, but thoughtful departure from Dodd-Frank. It recognizes the factors that led to the financial crisis and aims to keep barriers up to reduce the likelihood of another crisis. It also casts aside superfluous rules that did nothing to address the causes of the Great Recession. As a result, the CHOICE Act could reduce at least $10 billion in annual regulatory burdens, while cutting the budget deficit by $24 billion during the next decade. The bill is an ambitious attempt to reform the financial system in an economic environment stuck below two percent annual growth. Although CRA repeal votes have provided some level of deregulation, they are a fraction of what is envisioned with the CHOICE Act.