Insight

Financial Services Highlights from the President's FY2015 Budget

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Financial services highlights from the president's recently released official budget proposal include additional revenue, wind down of an unpopular crisis measure, and additional spending on regulatory agencies.

While Speaker Boehner quickly pounced on the president's budget, calling it "his most irresponsible budget yet," the portion of the proposal focused on the Treasury Department and financial regulatory agencies was fairly modest relative to recent discussions and preceding budgets. In all, the Treasury Department sees about a $53 billion reduction due to IRS and (perhaps overly optimistic) tax collection measures. The SEC and CFTC on the other hand are given 26 and 30 percent increases over the prior year's budget, respectively, in order to "to fully execute their responsibilities for financial oversight under the Wall Street Reform Act." Plagued by exits of many longtime staffers, the specter of scandals over the past few years, and a new SEC chair who has promised enhanced enforcement and prosecutions of Wall Street wrongdoers, this additional funding is presumably meant to boost these two agencies that have had trouble meeting regulatory deadlines and have been caught somewhat flat-footed by industry whistleblowers.

The budget's policy summary explicitly expresses "full support [of] the Financial Stability Oversight Council and Treasury's Office of Financial Research to identify, monitor, and respond to emerging threats to U.S financial security." This should come as no surprise: as the FSOC becomes a fully realized oversight body (with the Office of Financial Research acting as its data-crunching research arm) and continues to flex its muscle by designating an increasing number and variety of financial institutions for enhanced supervision, it will increasingly desire additional resources to match its growing scope. FSOC and OFR receive a five and a nearly 10 percent increase, respectively.

No doubt the item which will receive the most attention by Wall Street tax watchers, the proposal also includes a controversial "financial crisis responsibility fee" to be assessed on the largest banks as a way to compensate for prior and possibly future bailouts (though it would have the perverse effect of inextricably tying the largest banks to the government and possibly exacerbating bailout expectations). The administration predicts revenues of $56 billion over 10 years ($3 billion in the first year), and though this new levy is a nonstarter, it is interestingly $30 billion less than a similar measure in the tax reform proposal released last week by House Ways and Means Chairman Dave Camp.

The budget also predicts the final wind down and disposition of the Troubled Assets Relief Program (TARP) by FY 2016, which it notes has generated a net return, and still has approximately three percent of funds outstanding (excluding homeowner assistance).

Finally, the administration expects $88 billion in payments from the Federal Reserve. The Federal Reserve, which buys and sells various financial assets pursuant to its monetary policy and macroprudential purview, keeps operational costs and distributes any excess funds as a distribution to the Treasury Department. This $88 billion similar to prior years' disbursements which were $76 billion in FY13 and (expected) $90 billion in FY14.

Owing to the extraordinary scale of Treasuries purchases as part of its quantitative easing programs, the Federal Reserve has been fairly awash in the bond portfolio's revenue stream, though signals from the Fed indicate the rate of purchases will decelerate in coming quarters, which means declining Fed deposits to Treasury. The assumptions in the budget conform to this expectation by predicting increasing 10-year Treasury yields for the entire budget window.