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SECURITIES AND EXCHANGE COMMISSION [Release No. 34-71550/February 12, 2014]

Order Making Fiscal Year 2014 Annual Adjustments to Transaction Fee Rates

I. Background

Section 31 of the Securities Exchange Act of 1934 (“Exchange Act”) requires each national securities exchange and national securities association to pay transaction fees to the Commission.¹ Specifically, Section 31(b) requires each national securities exchange to pay to the Commission fees based on the aggregate dollar amount of sales of certain securities (“covered sales”) transacted on the exchange.² Section 31(c) requires each national securities association to pay to the Commission fees based on the aggregate dollar amount of covered sales transacted by or through any member of the association other than on an exchange.³

Section 31 of the Exchange Act requires the Commission to annually adjust the fee rates applicable under Sections 31(b) and (c) to a uniform adjusted rate.⁴ Specifically, the Commission must adjust the fee rates to a uniform adjusted rate that is reasonably likely to produce aggregate fee collections (including assessments on security futures transactions) equal to the regular appropriation to the Commission for the applicable fiscal year.⁵

The Commission is required to publish notice of the new fee rates under Section 31 not later than 30 days after the date on which an Act making a regular appropriation for the applicable fiscal

¹ 15 U.S.C. 78ee.

² 15 U.S.C. 78ee(b).

³ 15 U.S.C. 78ee(c).

⁴ In some circumstances, the SEC also must make a mid-year adjustment to the fee rates applicable under Sections 31(b) and (c).

⁵ 15 U.S.C. § 78ee(j)(1) (the Commission must adjust the rates under Sections 31(b) and (c) to a “uniform adjusted rate that, when applied to the baseline estimate of the aggregate dollar amount of sales for such fiscal year, is reasonably likely to produce aggregate fee collections under [Section 31] (including assessments collected under [Section 31(d)]) that are equal to the regular appropriation to the Commission by Congress for such fiscal year.”).

year is enacted.⁶ On January 17, 2014, the President signed the Consolidated Appropriations Act of 2014, providing \$1,350,000,000 in funds to the SEC for fiscal year 2014.

II. Fiscal Year 2014 Annual Adjustment to the Fee Rate

The new fee rate is determined by (1) subtracting the sum of fees estimated to be collected prior to the effective date of the new fee rate⁷ and estimated assessments on security futures transactions to be collected under Section 31(d) of the Exchange Act for all of fiscal year 2014⁸ from an amount equal to the regular appropriation to the Commission for fiscal year 2014, and (2) dividing the difference by the estimated aggregate dollar amount of sales for the remainder of the fiscal year following the effective date of the new fee rate.

The regular appropriation to the Commission for fiscal year 2014 is \$1,350,000,000. The Commission estimates that it will collect \$513,805,098 in fees for the period prior to the effective date of the new fee rate and \$58,854 in assessments on round turn transactions in security futures products during all of fiscal year 2014.⁹ Using a methodology for estimating the aggregate dollar amount of sales for the remainder of fiscal year 2014 (developed after consultation with the CBO and OMB), the

⁶ 15 U.S.C. § 78ee(g).

⁷ The sum of fees to be collected prior to the effective date of the new fee rate is determined by applying the current fee rate to the dollar amount of covered sales prior to the effective date of the new fee rate. The exchanges and FINRA have provided data on the dollar amount of covered sales through December 31, 2013. To calculate the dollar amount of covered sales from that date to the effective date of the new fee rate, the Division is using the same methodology it developed in consultation with the Congressional Budget Office (“CBO”) and the Office of Management and Budget (“OMB”) to estimate the dollar amount of covered sales in prior fiscal years. An explanation of the methodology appears in Appendix A.

⁸ The Division is using the same methodology it has used previously to estimate assessments on security futures transactions to be collected in fiscal year 2014. An explanation of the methodology appears in Appendix A.

⁹ The estimate of fees to be collected prior to the effective date of the new fee rate is determined by applying the current fee rate to the dollar amount of covered sales prior to the effective date of the new fee rate.

Commission estimates that the aggregate dollar amount of covered sales for the remainder of fiscal year 2014 to be \$37,881,618,779,245.

As described above, the uniform adjusted rate is computed by dividing the residual fees to be collected of \$836,136,049 by the estimate of the aggregate dollar amount of covered sales for the remainder of fiscal year 2014 of \$37,881,618,779,245. This results in a uniform adjusted rate for fiscal year 2014 of \$22.10 per million.¹⁰

III. Effective Date of the Uniform Adjusted Rate

Under Section 31(j)(4)(A) of the Exchange Act, the fiscal year 2014 annual adjustments to the fee rates applicable under Sections 31(b) and (c) of the Exchange Act shall take effect on the later of October 1, 2013, or 60 days after the date on which a regular appropriation to the Commission for fiscal year 2014 is enacted.¹¹ The regular appropriation to the Commission for fiscal year 2014 was enacted on January 17, 2014, and accordingly, the new fee rates applicable under Sections 31(b) and (c) of the Exchange Act will take effect on March 18, 2014.

¹⁰ Appendix A shows the purely arithmetic process of calculating the fiscal year 2014 annual adjustment. The appendix also includes the data used by the Commission in making this adjustment.

¹¹ 15 U.S.C. 78ee(j)(4)(A).

IV. Conclusion

Accordingly, pursuant to Section 31 of the Exchange Act,

IT IS HEREBY ORDERED that the fee rates applicable under Sections 31(b) and (c) of the Exchange Act shall be \$22.10 per \$1,000,000 effective on March 18, 2014.

By the Commission.

Kevin M. O'Neill,
Deputy Secretary.

APPENDIX A

This appendix provides the formula for determining the annual adjustment to the fee rates applicable under Sections 31(b) and (c) of the Exchange Act for fiscal year 2014. Section 31 of the Exchange Act requires the fee rates to be adjusted so that it is reasonably likely that the Commission will collect aggregate fees equal to its regular appropriation for fiscal year 2014.

To make the adjustment, the Commission must project the aggregate dollar amount of covered sales of securities on the securities exchanges and certain over-the-counter markets over the course of the year. The fee rate equals the ratio of the Commission's regular appropriation for fiscal year 2014 (less the sum of fees to be collected during fiscal year 2014 prior to the effective date of the new fee rate and aggregate assessments on security futures transactions during all of fiscal year 2014) to the estimated aggregate dollar amount of covered sales for the remainder of the fiscal year following the effective date of the new fee rate.

For 2014, the Commission has estimated the aggregate dollar amount of covered sales by projecting forward the trend established in the previous decade. More specifically, the dollar amount of covered sales was forecasted for months subsequent to December 2013, the last month for which the Commission has data on the dollar volume of covered sales.¹²

The following sections describe this process in detail.

¹² To determine the availability of data, the Commission compares the date of the appropriation with the date the transaction data are due from the exchanges (10 business days after the end of the month). If the business day following the date of the appropriation is equal to or subsequent to the date the data are due from the exchanges, the Commission uses these data. The appropriation was signed on January 17, 2014. The first business day after this date was January 21, 2014. Data for December were due from the exchanges on January 15. So the Commission used December 2013 and earlier data to forecast volume for January 2014 and later months.

A. Baseline estimate of the aggregate dollar amount of covered sales for fiscal year 2014.

First, calculate the average daily dollar amount of covered sales (ADS) for each month in the sample (December 2003 – December 2013). The monthly total dollar amount of covered sales (exchange plus certain over-the-counter markets) is presented in column C of Table A.

Next, calculate the change in the natural logarithm of ADS from month to month. The average monthly percentage growth of ADS over the entire sample is 0.0082 and the standard deviation is 0.122. Assuming the monthly percentage change in ADS follows a random walk, calculating the expected monthly percentage growth rate for the full sample is straightforward. The expected monthly percentage growth rate of ADS is 1.57 %.

Now, use the expected monthly percentage growth rate to forecast total dollar volume. For example, one can use the ADS for December 2013 (\$250,727,781,285) to forecast ADS for January 2014 ($\$254,668,736,673 = \$250,727,781,285 \times 1.0157$).¹³ Multiply by the number of trading days in January 2014 (21) to obtain a forecast of the total dollar volume for the month (\$5,348,043,470,127). Repeat the method to generate forecasts for subsequent months.

The forecasts for total dollar volume of covered sales are in column G of Table A. The following is a more formal (mathematical) description of the procedure:

1. Divide each month's total dollar volume (column C) by the number of trading days in that month (column B) to obtain the average daily dollar volume (ADS, column D).
2. For each month t , calculate the change in ADS from the previous month as
$$\Delta_t = \log(ADS_t / ADS_{t-1})$$
, where $\log(x)$ denotes the natural logarithm of x .
3. Calculate the mean and standard deviation of the series $\{\Delta_1, \Delta_2, \dots, \Delta_{120}\}$. These are given by $\mu = 0.0082$ and $\sigma = 0.122$, respectively.

¹³ The value 1.0157 has been rounded. All computations are done with the unrounded value.

4. Assume that the natural logarithm of ADS follows a random walk, so that Δ_s and Δ_t are statistically independent for any two months s and t.
5. Under the assumption that Δ_t is normally distributed, the expected value of ADS_t / ADS_{t-1} is given by $\exp(\mu + \sigma^2/2)$, or on average $ADS_t = 1.0157 \times ADS_{t-1}$.
6. For January 2014, this gives a forecast ADS of $1.0157 \times \$250,727,781,285 = \$254,668,736,673$.
Multiply this figure by the 21 trading days in January 2014 to obtain a total dollar volume forecast of $\$5,348,043,470,127$.
7. For February 2014, multiply the January 2014 ADS forecast by 1.0157 to obtain a forecast ADS of $\$258,671,636,250$. Multiply this figure by the 19 trading days in February 2014 to obtain a total dollar volume forecast of $\$4,914,761,088,752$.
8. Repeat this procedure for subsequent months.

B. Using the forecasts from A to calculate the new fee rate.

1. Use Table A to estimate fees collected for the period 10/1/13 through 3/17/14. The projected aggregate dollar amount of covered sales for this period is $\$29,529,028,597,158$. Actual and projected fee collections at the current fee rate of 0.0000174 are $\$513,805,098$.
2. Estimate the amount of assessments on security futures products collected from 10/1/13 through 9/30/14 to be $\$58,854$ by projecting a 1.57% monthly increase from a base of $\$4,940$ in December 2013.

3. Subtract the amounts \$513,805,098 and \$58,854 from the target offsetting collection amount set by Congress of \$1,350,000,000 leaving \$836,136,049 to be collected on dollar volume for the period 3/18/14 through 9/30/14.
4. Use Table A to estimate dollar volume for the period 3/18/14 through 9/30/14. The estimate is \$37,881,618,779,245. Finally, compute the fee rate required to produce the additional \$836,136,049 in revenue. This rate is \$836,136,049 divided by \$37,881,618,779,245 or 0.00002207234.
5. Round the result to the seventh decimal point, yielding a rate of .0000221 (or \$22.10 per million).

Table A. Baseline estimate of the aggregate dollar amount of sales.

Fee rate calculation.

a. Baseline estimate of the aggregate dollar amount of sales, 10/01/2013 to 02/28/2014 (\$Millions)	26,638,917
b. Baseline estimate of the aggregate dollar amount of sales, 03/01/2014 to 03/17/2014 (\$Millions)	2,890,112
c. Baseline estimate of the aggregate dollar amount of sales, 03/18/2014 to 03/31/2014 (\$Millions)	2,627,375
d. Baseline estimate of the aggregate dollar amount of sales, 04/01/2014 to 09/30/2014 (\$Millions)	35,254,244
e. Estimated collections in assessments on security futures products in fiscal year 2014 (\$Millions)	0.059
f. Implied fee rate $((\$1,350,000,000 - \$17.40*(a+b) - e) / (c+d))$	\$22.10

Data

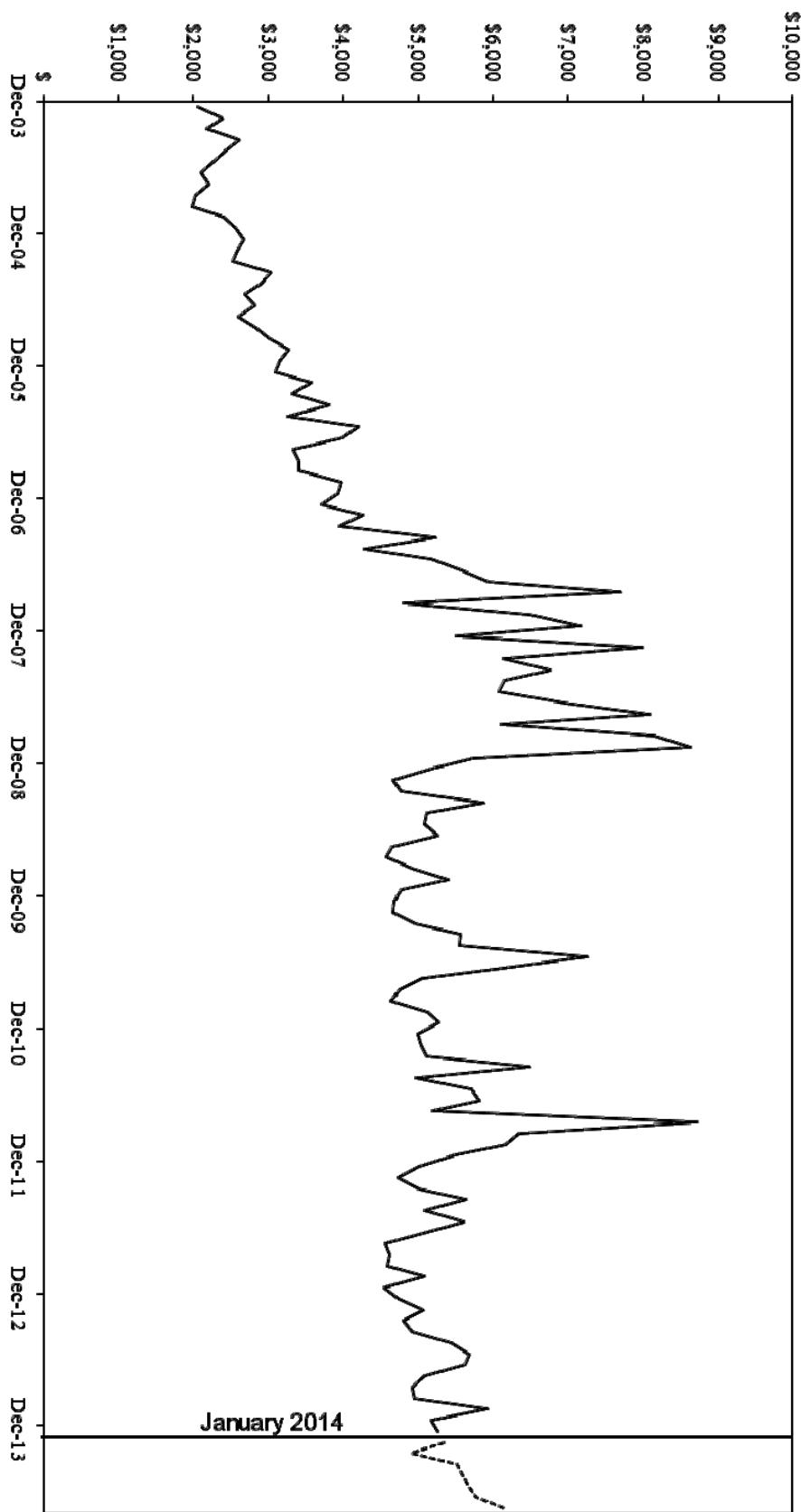
(A)	(B)	(C)	(D)	(E)	(F)	(G)
Month	# of Trading Days in Month	Total Dollar Amount of Sales	Average Daily Dollar Amount of Sales (ADS)	Change in Natural Logarithm of ADS	Forecast ADS	Forecast Total Dollar Amount of Sales
Dec-03	22	2,066,530,151,383	93,933,188,699	-		
Jan-04	20	2,390,942,905,678	119,547,145,284	0.241		
Feb-04	19	2,177,765,594,701	114,619,241,826	-0.042		
Mar-04	23	2,613,808,754,550	113,643,858,893	-0.009		
Apr-04	21	2,418,663,760,191	115,174,464,771	0.013		
May-04	20	2,259,243,404,459	112,962,170,223	-0.019		
Jun-04	21	2,112,826,072,876	100,610,765,375	-0.116		
Jul-04	21	2,209,808,376,565	105,228,970,313	0.045		
Aug-04	22	2,033,343,354,640	92,424,697,938	-0.130		
Sep-04	21	1,993,803,487,749	94,943,023,226	0.027		
Oct-04	21	2,414,599,088,108	114,980,908,958	0.191		
Nov-04	21	2,577,513,374,160	122,738,732,103	0.065		
Dec-04	22	2,673,532,981,863	121,524,226,448	-0.010		
Jan-05	20	2,581,847,200,448	129,092,360,022	0.060		

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Month	# of Trading Days in Month	Total Dollar Amount of Sales	Average Daily Dollar Amount of Sales (ADS)	Change in Natural Logarithm of ADS	Forecast ADS	Forecast Total Dollar Amount of Sales
Feb-05	19	2,532,202,408,589	133,273,810,978	0.032		
Mar-05	22	3,030,474,897,226	137,748,858,965	0.033		
Apr-05	21	2,906,386,944,434	138,399,378,306	0.005		
May-05	21	2,697,414,503,460	128,448,309,689	-0.075		
Jun-05	22	2,825,962,273,624	128,452,830,619	0.000		
Jul-05	20	2,604,021,263,875	130,201,063,194	0.014		
Aug-05	23	2,846,115,585,965	123,744,155,912	-0.051		
Sep-05	21	3,009,640,645,370	143,316,221,208	0.147		
Oct-05	21	3,279,847,331,057	156,183,206,241	0.086		
Nov-05	21	3,163,453,821,548	150,640,658,169	-0.036		
Dec-05	21	3,090,212,715,561	147,152,986,455	-0.023		
Jan-06	20	3,573,372,724,766	178,668,636,238	0.194		
Feb-06	19	3,314,259,849,456	174,434,728,919	-0.024		
Mar-06	23	3,807,974,821,564	165,564,122,677	-0.052		
Apr-06	19	3,257,478,138,851	171,446,217,834	0.035		
May-06	22	4,206,447,844,451	191,202,174,748	0.109		
Jun-06	22	3,995,113,357,316	181,596,061,696	-0.052		
Jul-06	20	3,339,658,009,357	166,982,900,468	-0.084		
Aug-06	23	3,410,187,280,845	148,269,012,211	-0.119		
Sep-06	20	3,407,409,863,673	170,370,493,184	0.139		
Oct-06	22	3,980,070,216,912	180,912,282,587	0.060		
Nov-06	21	3,933,474,986,969	187,308,332,713	0.035		
Dec-06	20	3,715,146,848,695	185,757,342,435	-0.008		
Jan-07	20	4,263,986,570,973	213,199,328,549	0.138		
Feb-07	19	3,946,799,860,532	207,726,308,449	-0.026		
Mar-07	22	5,245,051,744,090	238,411,442,913	0.138		
Apr-07	20	4,274,665,072,437	213,733,253,622	-0.109		
May-07	22	5,172,568,357,522	235,116,743,524	0.095		
Jun-07	21	5,586,337,010,802	266,016,048,133	0.123		
Jul-07	21	5,938,330,480,139	282,777,641,911	0.061		
Aug-07	23	7,713,644,229,032	335,375,836,045	0.171		
Sep-07	19	4,805,676,596,099	252,930,347,163	-0.282		
Oct-07	23	6,499,651,716,225	282,593,552,879	0.111		
Nov-07	21	7,176,290,763,989	341,728,131,619	0.190		
Dec-07	20	5,512,903,594,564	275,645,179,728	-0.215		
Jan-08	21	7,997,242,071,529	380,821,051,025	0.323		
Feb-08	20	6,139,080,448,887	306,954,022,444	-0.216		
Mar-08	20	6,767,852,332,381	338,392,616,619	0.098		
Apr-08	22	6,150,017,772,735	279,546,262,397	-0.191		
May-08	21	6,080,169,766,807	289,531,893,657	0.035		
Jun-08	21	6,962,199,302,412	331,533,300,115	0.135		
Jul-08	22	8,104,256,787,805	368,375,308,537	0.105		
Aug-08	21	6,106,057,711,009	290,764,652,905	-0.237		
Sep-08	21	8,156,991,919,103	388,428,186,624	0.290		
Oct-08	23	8,644,538,213,244	375,849,487,532	-0.033		
Nov-08	19	5,727,998,341,833	301,473,596,939	-0.221		
Dec-08	22	5,176,041,317,640	235,274,605,347	-0.248		
Jan-09	20	4,670,249,433,806	233,512,471,690	-0.008		
Feb-09	19	4,771,470,184,048	251,130,009,687	0.073		

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Month	# of Trading Days in Month	Total Dollar Amount of Sales	Average Daily Dollar Amount of Sales (ADS)	Change in Natural Logarithm of ADS	Forecast ADS	Forecast Total Dollar Amount of Sales
Mar-09	22	5,885,594,284,780	267,527,012,945	0.063		
Apr-09	21	5,123,665,205,517	243,984,057,406	-0.092		
May-09	20	5,086,717,129,965	254,335,856,498	0.042		
Jun-09	22	5,271,742,782,609	239,624,671,937	-0.060		
Jul-09	22	4,659,599,245,583	211,799,965,708	-0.123		
Aug-09	21	4,582,102,295,783	218,195,347,418	0.030		
Sep-09	21	4,929,155,364,888	234,721,684,042	0.073		
Oct-09	22	5,410,025,301,030	245,910,240,956	0.047		
Nov-09	20	4,770,928,103,032	238,546,405,152	-0.030		
Dec-09	22	4,688,555,303,171	213,116,150,144	-0.113		
Jan-10	19	4,661,793,708,648	245,357,563,613	0.141		
Feb-10	19	4,969,848,578,023	261,570,977,791	0.064		
Mar-10	23	5,563,529,823,621	241,892,601,027	-0.078		
Apr-10	21	5,546,445,874,917	264,116,470,234	0.088		
May-10	20	7,260,430,376,294	363,021,518,815	0.318		
Jun-10	22	6,124,776,349,285	278,398,924,967	-0.265		
Jul-10	21	5,058,242,097,334	240,868,671,302	-0.145		
Aug-10	22	4,765,828,263,463	216,628,557,430	-0.106		
Sep-10	21	4,640,722,344,586	220,986,778,314	0.020		
Oct-10	21	5,138,411,712,272	244,686,272,013	0.102		
Nov-10	21	5,279,700,881,901	251,414,327,710	0.027		
Dec-10	22	4,998,574,681,208	227,207,940,055	-0.101		
Jan-11	20	5,043,391,121,345	252,169,556,067	0.104		
Feb-11	19	5,114,631,590,581	269,191,136,346	0.065		
Mar-11	23	6,499,355,385,307	282,580,668,926	0.049		
Apr-11	20	4,975,954,868,765	248,797,743,438	-0.127		
May-11	21	5,717,905,621,053	272,281,220,050	0.090		
Jun-11	22	5,820,079,494,414	264,549,067,928	-0.029		
Jul-11	20	5,189,681,899,635	259,484,094,982	-0.019		
Aug-11	23	8,720,566,877,109	379,155,081,613	0.379		
Sep-11	21	6,343,578,147,811	302,075,149,896	-0.227		
Oct-11	21	6,163,272,963,688	293,489,188,747	-0.029		
Nov-11	21	5,493,906,473,584	261,614,593,980	-0.115		
Dec-11	21	5,017,867,255,600	238,946,059,790	-0.091		
Jan-12	20	4,726,522,206,487	236,326,110,324	-0.011		
Feb-12	20	5,011,862,514,132	250,593,125,707	0.059		
Mar-12	22	5,638,847,967,025	256,311,271,228	0.023		
Apr-12	20	5,084,239,396,560	254,211,969,828	-0.008		
May-12	22	5,611,638,053,374	255,074,456,972	0.003		
Jun-12	21	5,121,896,896,362	243,899,852,208	-0.045		
Jul-12	21	4,567,519,314,374	217,500,919,732	-0.115		
Aug-12	23	4,621,597,884,730	200,939,038,467	-0.079		
Sep-12	19	4,598,499,962,682	242,026,313,825	0.186		
Oct-12	21	5,095,175,588,310	242,627,408,967	0.002		
Nov-12	21	4,547,882,974,292	216,565,855,919	-0.114		
Dec-12	20	4,744,922,754,360	237,246,137,718	0.091		
Jan-13	21	5,079,603,817,496	241,885,896,071	0.019		
Feb-13	19	4,800,663,527,089	252,666,501,426	0.044		
Mar-13	20	4,917,701,839,870	245,885,091,993	-0.027		

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Month	# of Trading Days in Month	Total Dollar Amount of Sales	Average Daily Dollar Amount of Sales (ADS)	Change in Natural Logarithm of ADS	Forecast ADS	Forecast Total Dollar Amount of Sales
Apr-13	22	5,451,358,637,079	247,789,028,958	0.008		
May-13	22	5,681,788,831,869	258,263,128,721	0.041		
Jun-13	20	5,623,545,462,226	281,177,273,111	0.085		
Jul-13	22	5,083,861,509,754	231,084,614,080	-0.196		
Aug-13	22	4,925,611,193,095	223,891,417,868	-0.032		
Sep-13	20	4,959,197,626,713	247,959,881,336	0.102		
Oct-13	23	5,928,804,028,970	257,774,088,216	0.039		
Nov-13	20	5,182,024,612,049	259,101,230,602	0.005		
Dec-13	21	5,265,283,406,995	250,727,781,285	-0.033		
Jan-14	21				254,668,736,673	5,348,043,470,127
Feb-14	19				258,671,636,250	4,914,761,088,752
Mar-14	21				262,737,453,660	5,517,486,526,869
Apr-14	21				266,867,177,850	5,604,210,734,855
May-14	21				271,061,813,310	5,692,298,079,518
Jun-14	21				275,322,380,320	5,781,769,986,729
Jul-14	22				279,649,915,197	6,152,298,134,326
Aug-14	21				284,045,470,544	5,964,954,881,430
Sep-14	21				288,510,115,513	6,058,712,425,783

Figure A.
Aggregate Dollar Amount of Sales Subject to Exchange Act Sections 31(b) and 31(c)¹
Methodology Developed in Consultation With OMB and CBO
(Dashed Line Indicates Forecast Values)



¹Forecasted line is not smooth because the number of trading days varies by month.

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