

# SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66202 / January 20, 2012]

## Order Making Fiscal Year 2012 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.<sup>1</sup> 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 transacted on the exchange.<sup>2</sup> Section 31(c) requires each national securities association to pay to the Commission fees based on the aggregate dollar amount of sales of certain securities transacted by or through any member of the association other than on an exchange.<sup>3</sup>

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, and in some circumstances, to also make a mid-year adjustment. On April 29, 2011, the Commission issued an order establishing the uniform adjusted rate for fiscal year 2012 and beyond.<sup>4</sup> We noted in that order, however, that if a regular appropriation to the Commission for fiscal year 2012 was not enacted by October 1, 2011, the new uniform adjusted rate would never go into effect and the Commission would need to establish a new uniform

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<sup>1</sup> 15 U.S.C. 78ee.

<sup>2</sup> 15 U.S.C. 78ee(b).

<sup>3</sup> 15 U.S.C. 78ee(c).

<sup>4</sup> Exchange Act Rel. No. 34-64373, Order Making Fiscal Year 2012 Annual Adjustments to the Fee Rates Applicable under Section 31 of the Securities Exchange Act of 1934 (April 29, 2011).]

adjusted rate for fiscal year 2012 pursuant to amendments made to Section 31 of Exchange Act by the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”).<sup>5</sup> Because a regular appropriation to the Commission for fiscal year 2012 was not enacted by October 1, 2011, the Commission now is required to establish a new fee rate for fiscal year 2012 pursuant to the amended provisions of Section 31 of the Exchange Act.

## **II. Fiscal Year 2012 Annual Adjustment to the Fee Rate**

The Dodd-Frank Act amendments to Section 31 of the Exchange Act establish a new method for annually adjusting the fee rates applicable under Sections 31(b) and (c) of the Exchange Act. Specifically, the Commission must now 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.<sup>6</sup> In short, the new fee rate is determined by (1) subtracting the sum of fees estimated to be collected during fiscal year 2012 prior

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<sup>5</sup> Prior to amendment by the Dodd-Frank Act, Section 31(j)(4)(A) of the Exchange Act provided that the fiscal year 2012 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, 2011, or 30 days after the date on which a regular appropriation to the Commission for fiscal year 2012 is enacted.

Section 991 of the Dodd-Frank Act, however, amended Section 31 of the Exchange Act effective on the later of October 1, 2011 or the date of enactment of an Act making a regular appropriation to the Commission for fiscal year 2012. Those amendments are now effective, because a regular appropriation to the Commission was enacted on December 23, 2011. The amendments require the Commission to make a new adjustment to the fee rates applicable under Section 31 for fiscal year 2012.

<sup>6</sup> See 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.”).

to the effective date of the new fee rate and estimated assessments on securities futures transactions to be collected under Section 31(d) of the Exchange Act for all of fiscal year 2012 from an amount equal to the regular appropriation to the Commission for fiscal year 2012, 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 2012 is \$1,321,000,000. The Commission estimates that it will collect \$503,552,340 in fees for the period prior to the effective date of the new fee rate and \$17,328 in assessments on round turn transactions in security futures products during all of fiscal year 2012.<sup>7</sup> Using a methodology for estimating the aggregate dollar amount of sales for the remainder of fiscal year 2012 (developed after consultation with the Congressional Budget Office and the Office of Management and Budget), the Commission estimates that the aggregate dollar amount of sales for the remainder of fiscal year 2012 to be \$45,419,684,665,277.

As described above, the uniform adjusted rate is computed by dividing the residual fees to be collected of \$817,430,332 by the estimate of the aggregate dollar amount of sales for the remainder of fiscal year 2012 of \$45,419,684,665,277. This results in a uniform adjusted rate for fiscal year 2012 of \$18.00 per million.<sup>8</sup>

### **III. Effective Dates of the Annual Adjustments**

Section 31(j)(4)(A) of the Exchange Act provides that the fiscal year 2012 annual adjustments to the fee rates applicable under Sections 31(b) and (c) of the Exchange Act

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<sup>7</sup> 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 sales prior to the effective date of the new fee rate.

<sup>8</sup> Appendix A shows the purely arithmetical process of calculating the fiscal year 2012 annual adjustment. The appendix also includes the data used by the Commission in making this adjustment.

shall take effect on the later of October 1, 2011, or 60 days after the date on which a regular appropriation to the Commission for fiscal year 2012 is enacted. The regular appropriation to the Commission for fiscal year 2012 was enacted on December 23, 2011, and accordingly, the new fee rates applicable under Sections 31(b) and (c) of the Exchange Act will take effect on February 21, 2012.

**IV. Conclusion**

Accordingly, pursuant to Section 31 of the Exchange Act,<sup>9</sup>

IT IS HEREBY ORDERED that the fee rates applicable under Sections 31(b) and (c) of the Exchange Act shall be \$18.00 per million effective on February 21, 2012.

By the Commission.

Elizabeth M. Murphy  
Secretary

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<sup>9</sup> 15 U.S.C. 78ee(j).

## 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 2012.<sup>10</sup> 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 2012. 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 2012 (less the sum of fees to be collected during fiscal year 2012 prior to the effective date of the new fee rate and aggregate assessments on security futures transactions during fiscal year 2012) to the projected aggregate dollar amount of covered sales for fiscal year 2012 (less the aggregate dollar amount of covered sales prior to the effective date of the new fee rate).

For 2012, 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 November 2011, the last month for which the Commission has data on the dollar volume of covered sales.<sup>11</sup>

The following sections describe this process in detail.

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<sup>10</sup> Congress requires that the Commission make a mid-year adjustment to the fee rate if four months into the fiscal year it determines that its forecasts of aggregate dollar volume are reasonably likely to be off by 10% or more.

<sup>11</sup> 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 December 23. The first business day after this date was December 27. Data for November were due from the exchanges on December 14. So the Commission used November 2011 and earlier data to forecast volume for December 2011 and later months.

**A. Baseline estimate of the aggregate dollar amount of covered sales for fiscal year 2012.**

First, calculate the average daily dollar amount of covered sales (ADS) for each month in the sample (November 2001 - November 2011). The monthly aggregate 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 0.0087 and the standard deviation is 0.126. 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 1.7 %.

Now, use the expected monthly percentage growth rate to forecast total dollar volume. For example, one can use the ADS for November 2011 (\$261,614,593,980) to forecast ADS for December 2011 (\$265,994,342,797 = \$261,614,593,980 x 1.017).<sup>12</sup> Multiply by the number of trading days in December 2011 (21) to obtain a forecast of the total dollar volume for the month (\$5,585,881,198,747). 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

$$\Delta_t = \log (\text{ADS}_t / \text{ADS}_{t-1}), \text{ where } \log (x) \text{ denotes the natural logarithm of } x.$$

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<sup>12</sup> The value 1.017 has been rounded. All computations are done with the unrounded value.

3. Calculate the mean and standard deviation of the series  $\{\Delta_1, \Delta_2, \dots, \Delta_{120}\}$ . These are given by  $\mu = 0.0087$  and  $\sigma = 0.126$ , respectively.
4. Assume that the natural logarithm of ADS follows a random walk, so that  $\Delta_s$  and  $\Delta_t$  are statistically independent for any two months  $s$  and  $t$ .
5. Under the assumption that  $\Delta_t$  is normally distributed, the expected value of  $ADS_t / ADS_{t-1}$  is given by  $\exp(\mu + \sigma^2/2)$ , or on average  $ADS_t = 1.017 \times ADS_{t-1}$ .
6. For December 2011, this gives a forecast ADS of  $1.017 \times \$261,614,593,980 = \$265,994,342,797$ . Multiply this figure by the 21 trading days in December 2011 to obtain a total dollar volume forecast of  $\$5,585,881,198,747$ .
7. For January 2012, multiply the December 2011 ADS forecast by 1.017 to obtain a forecast ADS of  $\$270,447,413,976$ . Multiply this figure by the 20 trading days in January 2012 to obtain a total dollar volume forecast of  $\$5,408,948,279,516$ .
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 10/1/11 through 2/20/12. The projected aggregate dollar amount of covered sales for this period is  $\$26,226,684,370,811$ . Actual and projected fee collections at the current fee rate of 0.0000192 are  $\$503,552,340$ .
2. Estimate the amount of assessments on securities futures products collected during 10/1/11 and 9/30/12 to be  $\$17,328$  by projecting a 1.7% monthly increase from a base of  $\$1,387$  in November 2011.

3. Subtract the amounts \$503,552,340 and \$17,328 from the target offsetting collection amount set by Congress of \$1,321,000,000 leaving \$817,430,332 to be collected on dollar volume for the period 2/21/12 through 9/30/12.
4. Use Table A to estimate dollar volume for the period 2/21/12 through 9/30/12. The estimate is \$45,419,684,665,277. Finally, compute the fee rate required to produce the additional \$817,430,332 in revenue. This rate is \$817,430,332 divided by \$45,419,684,665,277 or 0.0000179973.
5. Round the result to the seventh decimal point, yielding a rate of .0000180 (or \$18.00 per million).



**Table A. Estimation of baseline of the aggregate dollar amount of sales.**

**Fee rate calculation.**

a. Baseline estimate of the aggregate dollar amount of sales, 10/1/11 to 2/20/12 (\$Millions)	26,226,684
b. Baseline estimate of the aggregate dollar amount of sales, 2/21/12 to 9/30/12 (\$Millions)	45,419,685
c. Estimated collections in assessments on securities futures products in FY 2012 (\$Millions)	0.017
d. Implied fee rate ( $(\$1,321,000,000 - 0.0000192^*a - c) / b$ )	\$18.00

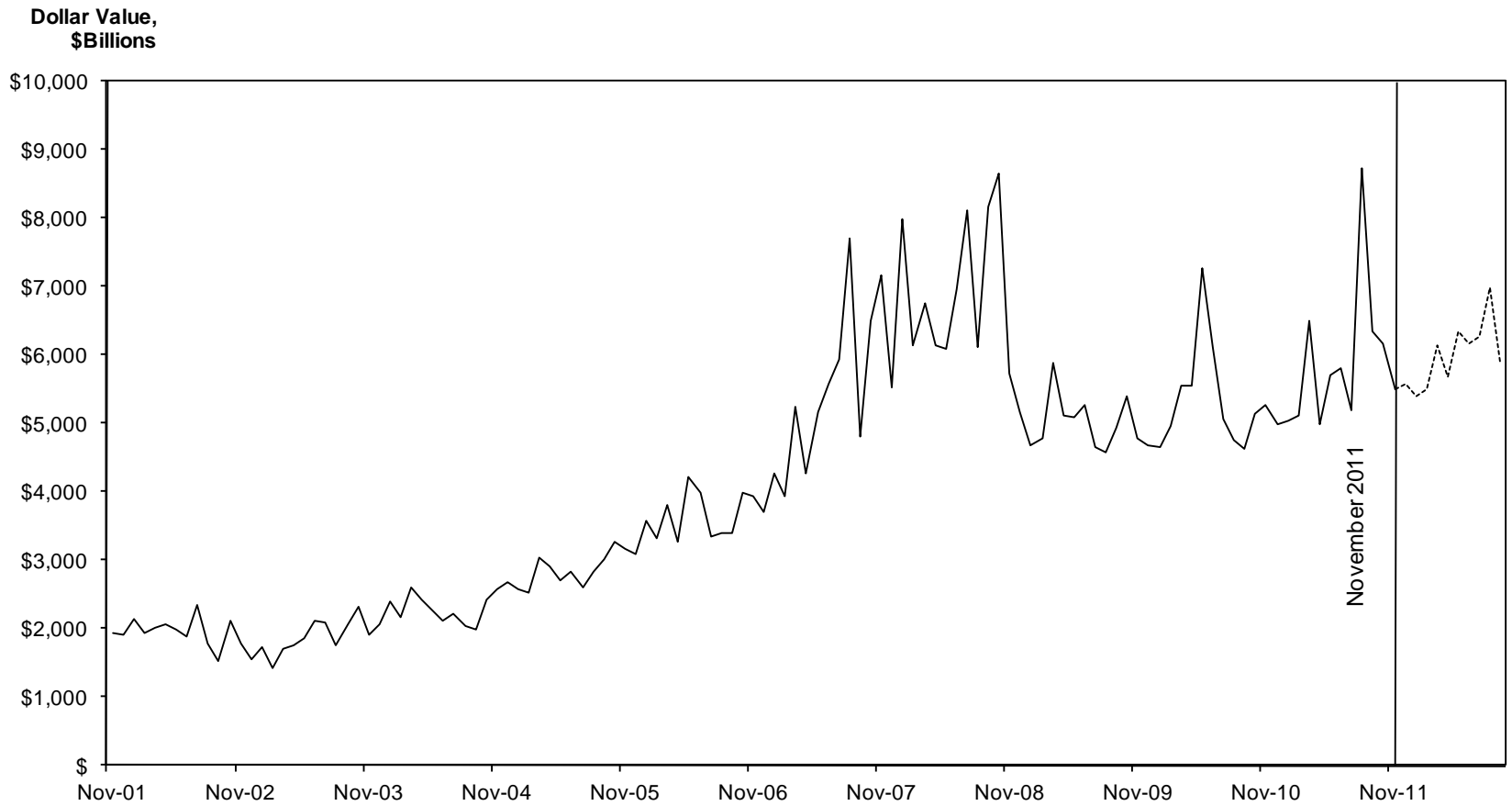
**Data**

(A) Month	(B) # of Trading Days in Month	(C) Aggregate Dollar Amount of Sales	(D) Average Daily Dollar Amount of Sales (ADS)	(E) Change in LN of ADS	(F) Forecast ADS	(G) Forecast Aggregate Dollar Amount of Sales
Nov-01	21	1,939,427,217,518	92,353,677,025	-		
Dec-01	20	1,921,098,738,113	96,054,936,906	0.039		
Jan-02	21	2,149,243,312,432	102,344,919,640	0.063		
Feb-02	19	1,928,830,595,585	101,517,399,768	-0.008		
Mar-02	20	2,002,216,374,514	100,110,818,726	-0.014		
Apr-02	22	2,062,101,866,506	93,731,903,023	-0.066		
May-02	22	1,985,859,756,557	90,266,352,571	-0.038		
Jun-02	20	1,882,185,380,609	94,109,269,030	0.042		
Jul-02	22	2,349,564,490,189	106,798,385,918	0.126		
Aug-02	22	1,793,429,904,079	81,519,541,095	-0.270		
Sep-02	20	1,518,944,367,204	75,947,218,360	-0.071		
Oct-02	23	2,127,874,947,972	92,516,302,086	0.197		
Nov-02	20	1,780,816,458,122	89,040,822,906	-0.038		
Dec-02	21	1,561,092,215,646	74,337,724,555	-0.180		
Jan-03	21	1,723,698,830,414	82,080,896,686	0.099		
Feb-03	19	1,411,722,405,357	74,301,179,229	-0.100		
Mar-03	21	1,699,581,267,718	80,932,441,320	0.085		
Apr-03	21	1,759,751,025,279	83,797,667,870	0.035		
May-03	21	1,871,390,985,678	89,113,856,461	0.062		
Jun-03	21	2,122,225,077,345	101,058,337,016	0.126		
Jul-03	22	2,100,812,973,956	95,491,498,816	-0.057		
Aug-03	21	1,766,527,686,224	84,120,366,011	-0.127		
Sep-03	21	2,063,584,421,939	98,265,924,854	0.155		
Oct-03	23	2,331,850,083,022	101,384,786,218	0.031		
Nov-03	19	1,903,726,129,859	100,196,112,098	-0.012		
Dec-03	22	2,066,530,151,383	93,933,188,699	-0.065		
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		
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		
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				265,994,342,797	5,585,881,198,747
Jan-12	20				270,447,413,976	5,408,948,279,516
Feb-12	20				274,975,035,021	5,499,500,700,425
Mar-12	22				279,578,453,990	6,150,725,987,779
Apr-12	20				284,258,939,832	5,685,178,796,640
May-12	22				289,017,782,741	6,358,391,220,309
Jun-12	21				293,856,294,511	6,170,982,184,735
Jul-12	21				298,775,808,896	6,274,291,986,814
Aug-12	23				303,777,681,979	6,986,886,685,506
Sep-12	19				308,863,292,545	5,868,402,558,346

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



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