

through any member of the association otherwise than on an exchange. Paragraph 31(j)(1) requires the Commission to make annual adjustments to the fee rates applicable under sections 31(b) and (c) for each of the fiscal years 2003 through 2011.¹²

Paragraph 31(l)(1) specifies that the “target offsetting collection amount” for fiscal year 2004 is \$1,028,000,000.¹³ Paragraph 31(l)(2) defines the “baseline estimate of the aggregate dollar amount of sales” as “the baseline estimate of the aggregate dollar amount of sales of securities * * * to be transacted on each national securities exchange and by or through any member of each national securities association (otherwise than on a national securities exchange) during (fiscal year 2004) as determined by the Commission, after consultation with the Congressional Budget Office and the Office of Management and Budget * * *.”

To make the baseline estimate of the aggregate dollar amount of sales for fiscal year 2004, the Commission is using the same methodology it developed in consultation with the CBO and OMB for making projections of dollar volume for purposes of prior fee adjustments.¹⁴ Using this methodology, the Commission calculates the baseline estimate of the aggregate dollar amount

of sales for fiscal year 2004 to be \$25,918,721,642,549. Based on this estimate, and an estimated collection of \$19,182 in assessments on securities futures products in fiscal year 2004, the uniform adjusted rate is \$39.00 per million.¹⁵

IV. Effective Dates of the Annual Adjustments

Subparagraph 6(b)(8)(A) of the Securities Act provides that the fiscal year 2004 annual adjustment to the fee rate applicable under section 6(b) of the Securities Act shall take effect on the later of October 1, 2003, or five days after the date on which a regular appropriation to the Commission for fiscal year 2004 is enacted.¹⁶ Subparagraphs 13(e)(8)(A) and 14(g)(8)(A) of the Exchange Act provide for the same effective date for the annual adjustments to the fee rates applicable under sections 13(e) and 14(g) of the Exchange Act.¹⁷

Subparagraph 31(j)(4)(A) of the Exchange Act provides that the fiscal year 2004 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, 2003, or thirty days after the date on which a regular appropriation to the Commission for fiscal year 2004 is enacted.

V. Conclusion

Accordingly, pursuant to section 6(b) of the Securities Act and sections 13(e), 14(g) and 31 of the Exchange Act,¹⁸

It is hereby ordered that the fee rates applicable under section 6(b) of the Securities Act and sections 13(e) and 14(g) of the Exchange Act shall be \$126.70 per million effective on the later of October 1, 2003, or five days after the date on which a regular appropriation to the Commission for fiscal year 2004 is enacted; and

It is further ordered that the fee rates applicable under sections 31(b) and (c) of the Exchange Act shall be \$39.00 per million effective on the later of October 1, 2003, or thirty days after the date on which a regular appropriation to the Commission for fiscal year 2004 is enacted.

By the Commission.

Margaret H. McFarland,
Deputy Secretary.

Appendix A

With the passage of the Investor and Capital Markets Relief Act, Congress has established a target amount of monies to be collected from fees charged to issuers based on the value of their registrations. This appendix provides the formula for determining such fees, which the Commission adjusts annually. Congress has mandated that the Commission determine these fees based on the “aggregate maximum offering prices,” which measures the aggregate dollar amount of securities registered with the SEC over the course of the year. In order to maximize the likelihood that the amount of monies targeted by Congress will be collected, the fee rate must be set to reflect projected aggregate maximum offering prices. As a percentage, the fee rate equals the ratio of the target amounts of monies to the projected aggregate maximum offering prices.

For 2004, the Commission has estimated the aggregate maximum offering prices by projecting forward the trend established in the previous decade. More specifically, an ARIMA model was used to forecast the value of the aggregate maximum offering prices for months subsequent to March 2003, the last month for which the Commission has data on the aggregate maximum offering prices.

The following sections describe this process in detail.

A. Baseline Estimate of the Aggregate Maximum Offering Prices for Fiscal Year 2004

First, calculate the aggregate maximum offering prices (AMOP) for each month in the sample (March 1993–March 2003). Next, calculate the percentage change in the AMOP from month-to-month.

Model the monthly percentage change in AMOP as a first order moving average process. The moving average approach allows one to model the effect that an exceptionally high (or low) observation of AMOP tends to be followed by a more “typical” value of AMOP.

Use the estimated moving average model to forecast the monthly percent change in AMOP. These percent changes can then be applied to obtain forecasts of the total dollar value of registrations. The following is a more formal (mathematical) description of the procedure:

1. Begin with the monthly data for AMOP. The sample spans ten years, from March 1993 to March 2003. There are 6 months in the sample for which the data are omitted because of the impact of extraordinary events (e.g., the 1995 government shutdown).

2. Divide each month’s AMOP (column C) by the number of trading days in that month (column B) to obtain the average daily AMOP (AAMOP, column D).

3. For each month t , the natural logarithm of AAMOP is reported in column E.

4. Calculate the change in $\log(\text{AAMOP})$ from the previous month as $\Delta_t = \log(\text{AAMOP}_t) - \log(\text{AAMOP}_{t-1})$. This approximates the percentage change.

¹² The annual adjustments, as well as the mid-year adjustments required in specified circumstances under paragraph 31(j)(2) in fiscal years 2002 through 2011, are designed to adjust the fee rates in a given fiscal year so that, when applied to the aggregate dollar volume of sales for the fiscal year, they are reasonably likely to produce total fee collections under section 31 equal to the “target offsetting collection amount” specified in section 31(l)(1) for that fiscal year.

specifies the method for determining the annual adjustment for fiscal year 2004. Specifically, 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 (fiscal year 2004), is reasonably likely to produce aggregate fee collections under (section 31) (including assessments collected under (section 31(d))) that are equal to the target offsetting collection amount for (fiscal year 2004).”

¹³ Congress determined the target offsetting collection amounts by applying reduced fee rates to the CBO’s January 2001 projections of dollar volume for fiscal years 2002 through 2011. In any fiscal year through fiscal year 2011, the annual and, in specified circumstances, mid-year adjustment mechanisms will result in additional fee rate reductions if the CBO’s January 2001 projection of dollar volume for the fiscal year proves to be too low, and fee rate increases if the CBO’s January 2001 projection of dollar volume for the fiscal year proves to be too high.

¹⁴ Appendix B explains how we determined the “baseline estimate of the aggregate dollar amount of sales” for fiscal year 2004 using our methodology, and then shows the purely arithmetical process of calculating the fiscal year 2004 annual adjustment based on that estimate. The appendix also includes the data used by the Commission in making its “baseline estimate of the aggregate dollar amount of sales” for fiscal year 2004.

¹⁵ The calculation of the adjusted fee rate assumes that the current fee rate of \$46.80 per million will apply through October 31st due to the operation of the effective date provision contained in subparagraph 31(j)(4)(A) of the Exchange Act.

¹⁶ 15 U.S.C. 77f(b)(8)(A).

¹⁷ 15 U.S.C. 78m(e)(8)(A) and 78n(g)(8)(A).

¹⁸ 15 U.S.C. 77f(b), 78m(e), 78n(g), and 78ee(j).