

I. EWG and FUCO Subsidiaries and Reinvestment of Proceeds From the Divestiture of Nonutility Businesses

E.ON requests the Commission authorize continued investment in an aggregate amount of up to USD 65 billion in EWGs and FUCOs, the Aggregate EWG/FUCO Financing Limitation.²⁶ Applicants state that they also seek authority to issue and sell up to USD 35 billion of securities to finance EWG and FUCO investments pending the receipt of divestiture proceeds ("Bridge Loans"), for the flexibility of E.ON, so that attractive investment opportunities may be pursued, because the timing of the receipt of divestiture proceeds will not always coincide with the opportunity to invest in additional EWG or FUCO assets.²⁷ Applicants state that any issuance of Bridge Loans would count against the E.ON External Limit or the E.ON Short-term Limit, depending on the maturity of the Bridge Loans.

J. Energy-Related Subsidiaries

E.ON also seeks authorization to acquire and to invest up to USD 10 billion, the Energy-Related Subsidiary Investment Limit, of the divestiture proceeds during the Authorization Period in certain permitted nonutility businesses located primarily outside of the U.S.

For the Commission by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33-8572; 34-51631/April 28, 2005]

Order Making Fiscal Year 2006 Annual Adjustments to the Fee Rates Applicable Under Section 6(b) of the Securities Act of 1933 and Sections 13(e), 14(g), 31(b) and 31(c) of the Securities Exchange Act of 1934

I. Background

The Commission collects fees under various provisions of the securities laws. Section 6(b) of the Securities Act of 1933 ("Securities Act") requires the Commission to collect fees from issuers on the registration of securities.¹ Section 13(e) of the Securities Exchange Act of 1934 ("Exchange Act") requires the Commission to collect fees on specified repurchases of securities.² Section 14(g) of the Exchange Act requires the Commission to collect fees on proxy solicitations and statements in corporate control transactions.³ Finally, sections 31(b) and (c) of the Exchange Act require national securities exchanges and national securities associations, respectively, to pay fees on transactions in specified securities to the Commission.⁴

The Investor and Capital Markets Fee Relief Act ("Fee Relief Act")⁵ amended section 6(b) of the Securities Act and sections 13(e), 14(g), and 31 of the Exchange Act to require the Commission to make annual adjustments to the fee rates applicable under these sections for each of the fiscal years 2003 through 2011, and one final adjustment to fix the fee rates under these sections for fiscal year 2012 and beyond.⁶

II. Fiscal Year 2006 Annual Adjustment to the Fee Rates Applicable under Section 6(b) of the Securities Act and Sections 13(e) and 14(g) of the Exchange Act

Section 6(b)(5) of the Securities Act requires the Commission to make an

annual adjustment to the fee rate applicable under section 6(b) of the Securities Act in each of the fiscal years 2003 through 2011.⁷ In those same fiscal years, sections 13(e)(5) and 14(g)(5) of the Exchange Act require the Commission to adjust the fee rates under sections 13(e) and 14(g) to a rate that is equal to the rate that is applicable under section 6(b). In other words, the annual adjustment to the fee rate under section 6(b) of the Securities Act also sets the annual adjustment to the fee rates under sections 13(e) and 14(g) of the Exchange Act.

Section 6(b)(5) sets forth the method for determining the annual adjustment to the fee rate under section 6(b) for fiscal year 2006. Specifically, the Commission must adjust the fee rate under section 6(b) to a "rate that, when applied to the baseline estimate of the aggregate maximum offering prices for [fiscal year 2006], is reasonably likely to produce aggregate fee collections under [Section 6(b)] that are equal to the target offsetting collection amount for [fiscal year 2006]." That is, the adjusted rate is determined by dividing the "target offsetting collection amount" for fiscal year 2006 by the "baseline estimate of the aggregate maximum offering prices" for fiscal year 2006.

Section 6(b)(11)(A) specifies that the "target offsetting collection amount" for fiscal year 2006 is \$689,000,000.⁸ Section 6(b)(11)(B) defines the "baseline estimate of the aggregate maximum offering price" for fiscal year 2006 as "the baseline estimate of the aggregate maximum offering price at which securities are proposed to be offered pursuant to registration statements filed with the Commission during [fiscal year 2006] 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 maximum offering price for

⁷ The annual adjustments are designed to adjust the fee rate in a given fiscal year so that, when applied to the aggregate maximum offering price at which securities are proposed to be offered for the fiscal year, it is reasonably likely to produce total fee collections under section 6(b) equal to the "target offsetting collection amount" specified in section 6(b)(11)(A) for that fiscal year.

⁸ Congress determined the target offsetting collection amounts by applying reduced fee rates to the CBO's January 2001 projections of the aggregate maximum offering prices for fiscal years 2002 through 2011. In any fiscal year through fiscal year 2011, the annual adjustment mechanism will result in additional fee rate reductions if the CBO's January 2001 projection of the aggregate maximum offering prices for the fiscal year proves to be too low, and fee rate increases if the CBO's January 2001 projection of the aggregate maximum offering prices for the fiscal year proves to be too high.

²⁶ See the 2002 Order, note 1 above. Applicants propose that the investments consist of: (i) an initial combined E.ON, Powergen and LG&E Energy aggregate investment in EWGs and FUCOs of USD 4.886 billion, as of December 31, 2001; (ii) the proposed reinvestment of the sale proceeds of the TBD Subsidiary divestitures in an amount up to USD 35 billion; and (iii) an additional amount of EWG/FUCO proposed investment of up to USD 25 billion.

²⁷ Applicants state that, upon the receipt of the divestiture proceeds, the Bridge Loans or debt securities with an equivalent principal amount would be retired, redeemed or otherwise paid down.

¹ 15 U.S.C. 77f(b).

² 15 U.S.C. 78m(e).

³ 15 U.S.C. 78n(g).

⁴ 15 U.S.C. 78ee(b) and (c). In addition, Section 31(d) of the Exchange Act requires the Commission to collect assessments from national securities exchanges and national securities associations for round turn transactions on security futures. 15 U.S.C. 78ee(d).

⁵ Pub. L. No. 107-123, 115 Stat. 2390 (2002).

⁶ See 15 U.S.C. 77f(b)(5), 77f(b)(6), 78m(e)(5), 78m(e)(6), 78n(g)(5), 78n(g)(6), 78ee(j)(1), and 78ee(j)(3). Section 31(j)(2) of the Exchange Act, 15 U.S.C. 78ee(j)(2), also requires the Commission, in specified circumstances, to make a mid-year adjustment to the fee rates under sections 31(b) and (c) of the Exchange Act in fiscal years 2002 through 2011.

fiscal year 2006, the Commission is using the same methodology it developed in consultation with the Congressional Budget Office ("CBO") and Office of Management and Budget ("OMB") to project aggregate offering price for purposes of the fiscal year 2005 annual adjustment. Using this methodology, the Commission determines the "baseline estimate of the aggregate maximum offering price" for fiscal year 2006 to be \$6,437,675,847,178.⁹ Based on this estimate, the Commission calculates the annual adjustment for fiscal 2006 to be \$107.00 per million. This adjusted fee rate applies to section 6(b) of the Securities Act, as well as to sections 13(e) and 14(g) of the Exchange Act.

III. Fiscal Year 2006 Annual Adjustment to the Fee Rates Applicable Under Sections 31(b) and (c) of the Exchange Act

Section 31(b) of the Exchange Act requires each national securities exchange to pay the Commission a fee at a rate, as adjusted by our order pursuant to section 31(j)(2), which currently is \$41.80 per million of the aggregate dollar amount of sales of specified securities transacted on the exchange.¹⁰ Similarly, section 31(c) requires each national securities association to pay the Commission a fee at the same adjusted rate on the aggregate dollar amount of sales of specified securities transacted by or through any member of the association otherwise than on an exchange. Section 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 2011.¹¹

Section 31(j)(1) specifies the method for determining the annual adjustment

for fiscal year 2006. 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 2006], 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 2006]."

Section 31(j)(1) specifies that the "target offsetting collection amount" for fiscal year 2006 is \$1,435,000,000.¹² Section 31(j)(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 2006] 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 2006, the Commission is using the same methodology it developed in consultation with the CBO and OMB to project dollar volume for purposes of prior fee adjustments.¹³ Using this methodology, the Commission calculates the baseline estimate of the aggregate dollar amount of sales for fiscal year 2006 to be \$45,554,892,611,953. Based on this estimate, and an estimated collection of \$110,180 in assessments on securities futures transactions under Section 31(d) in fiscal year 2006, the uniform adjusted rate is \$30.70 per million.¹⁴

¹² 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.

¹³ Appendix B explains how we determined the "baseline estimate of the aggregate dollar amount of sales" for fiscal year 2006 using our methodology, and then shows the purely arithmetical process of calculating the fiscal year 2006 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 2006.

¹⁴ The calculation of the adjusted fee rate assumes that the current fee rate of \$41.80 per million will apply through October 31st due to the operation of the effective date provision contained in section 31(j)(4)(A) of the Exchange Act.

IV. Effective Dates of the Annual Adjustments

Section 6(b)(8)(A) of the Securities Act provides that the fiscal year 2006 annual adjustment to the fee rate applicable under section 6(b) of the Securities Act shall take effect on the later of October 1, 2005, or five days after the date on which a regular appropriation to the Commission for fiscal year 2006 is enacted.¹⁵ Section 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.¹⁶

Section 31(j)(4)(A) of the Exchange Act provides that the fiscal year 2006 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, 2005, or thirty days after the date on which a regular appropriation to the Commission for fiscal year 2006 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,¹⁷

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 \$107.00 per million effective on the later of October 1, 2005, or five days after the date on which a regular appropriation to the Commission for fiscal year 2006 is enacted; and

It is further ordered that the fee rates applicable under sections 31(b) and (c) of the Exchange Act shall be \$30.70 per million effective on the later of October 1, 2005, or thirty days after the date on which a regular appropriation to the Commission for fiscal year 2006 is enacted.

By the Commission.

J. Lynn Taylor,
Assistant Secretary.

APPENDIX A

With the passage of the Investor and Capital Markets Relief Act, Congress has, among other things, 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

¹⁵ 15 U.S.C. 77f(b)(8)(A).

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

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

⁹ Appendix A explains how we determined the "baseline estimate of the aggregate maximum offering price" for fiscal year 2006 using our methodology, and then shows the purely arithmetical process of calculating the fiscal year 2006 annual adjustment based on that estimate. The appendix includes the data used by the Commission in making its "baseline estimate of the aggregate maximum offering price" for fiscal year 2006.

¹⁰ Order Making Fiscal 2005 Mid-Year Adjustment to the Fee Rates Applicable Under Sections 31(b) and (c) of the Securities Exchange Act of 1934, Rel. No. 34-51277 (February 28, 2005), 70 FR 10695 (March 4, 2005).

¹¹ The annual adjustments, as well as the mid-year adjustments required in specified circumstances under section 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(j)(1) for that fiscal year.

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 2006, 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 2005, 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 2006.

First, calculate the aggregate maximum offering prices (AMOP) for each month in the sample (March 1995–March 2005). 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 1995 to March 2005. There are 3 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.

5. Estimate the first order moving average model $\Delta_t = \alpha + \beta e_{t-1} + e_t$, where e_t denotes the forecast error for month t . The forecast error is simply the difference between the one-month ahead forecast and the actual realization of Δ_t . The forecast error is expressed as $e_t = \Delta_t - \alpha - \beta e_{t-1}$. The model can be estimated using standard commercially available software such as SAS or Eviews. Using least squares, the estimated

parameter values are $\alpha = 0.01275$ and $\beta = -0.74504$.

6. For the month of April 2005, forecast $\Delta_t = 4/05 = \alpha + \beta e_{t=3/05}$. For all subsequent months, forecast $\Delta_t = \alpha$.

7. Calculate forecasts of $\log(\text{AAMOP})$. For example, the forecast of $\log(\text{AAMOP})$ for June 2005 is given by $\text{FLAAMOP}_{t=6/05} = \log(\text{AAMOP}_{t=3/05}) + \Delta_{t=4/05} + \Delta_{t=5/05} + \Delta_{t=6/05}$.

8. Under the assumption that e_t is normally distributed, the n -step ahead forecast of AAMOP is given by $\exp(\text{FLAAMOP}_t + \sigma_n^2/2)$, where σ_n denotes the standard error of the n -step ahead forecast.

9. For June 2005, this gives a forecast AAMOP of \$22.0 Billion (Column I), and a forecast AMOP of \$484.0 Billion (Column J).

10. Iterate this process through September 2006 to obtain a baseline estimate of the aggregate maximum offering prices for fiscal year 2006 of \$6,437,675,847,178.

B. Using the Forecasts From A to Calculate the New Fee Rate

1. Using the data from Table A, estimate the aggregate maximum offering prices between 10/1/05 and 9/30/06 to be \$6,437,675,847,178.

2. The rate necessary to collect the target \$689,000,000 in fee revenues set by Congress is then calculated as: $\$689,000,000 \div \$6,437,675,847,178 = 0.00010703$ (or \$107.00 per million.).

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Table A. Estimation of baseline of aggregate maximum offering prices .

Fee rate calculation.

a. Baseline estimate of the aggregate maximum offering prices, 10/1/05 to 9/30/06 (\$Millions)	6,437,676
b. Implied fee rate (\$689 Million / a)	\$107.00

Data	(A) Month	(B) # of Trading Days in Month	(C) Aggregate Maximum Offering Prices, in \$Millions	(D) Average Daily Aggregate Max. Offering Prices (AAMOP) in \$Millions	(E) log(AAMOP)	(F) Change in AAMOP	(G) Forecast log(AAMOP)	(H) Standard Error	(I) Forecast AAMOP, in \$Millions	(J) Forecast Aggregate Maximum Offering Prices, in \$Millions
	Mar-95	23	91,561	3,981	22,105					
	Apr-95	19	62,518	3,290	21,914	-0.190				
	May-95	22	106,333	4,833	22,299	0.385				
	Jun-95	22	117,557	5,344	22,399	0.100				
	Jul-95	20	65,127	3,256	21,904	-0.495				
	Aug-95	23	124,662	5,420	22,413	0.510				
	Sep-95	20	131,774	6,589	22,609	0.195				
	Oct-95	22	132,141	6,006	22,516	-0.093				
	Nov-95	21	110,646	5,269	22,385	-0.131				
	Dec-95	20								
	Jan-96	22								
	Feb-96	20								
	Mar-96	21	117,780	5,609	22,448					
	Apr-96	21	158,005	7,524	22,741	0.294				
	May-96	22	142,452	6,475	22,591	-0.150				
	Jun-96	20	122,598	6,130	22,536	-0.055				
	Jul-96	22	113,637	5,165	22,365	-0.171				
	Aug-96	22	128,154	5,825	22,485	0.120				
	Sep-96	20	108,763	5,438	22,417	-0.069				
	Oct-96	23	171,507	7,457	22,732	0.316				
	Nov-96	20	164,574	8,229	22,831	0.098				
	Dec-96	21	214,241	10,202	23,046	0.215				
	Jan-97	22	136,615	6,210	22,549	-0.496				
	Feb-97	19	317,624	16,717	23,540	0.990				
	Mar-97	20	140,809	7,040	22,675	-0.865				
	Apr-97	22	182,657	8,303	22,840	0.165				
	May-97	21	163,702	7,795	22,777	-0.063				

Data

(A) Month	(B) # of Trading Days in Month	(C) Aggregate Maximum Offering Prices, in \$Millions	(D) Average Daily Aggregate Max. Offering Prices (AAMOP) in \$Millions	(E) log(AAMOP)	(F) Change in AAMOP	(G) Forecast log(AAMOP)	(H) Standard Error	(I) Forecast AAMOP, in \$Millions	(J) Forecast Aggregate Maximum Offering Prices, in \$Millions
Jun-97	21	162,111	7,720	22,767	-0.010				
Jul-97	22	168,007	7,637	22,756	-0.011				
Aug-97	21	153,705	7,319	22,714	-0.042				
Sep-97	21	179,559	8,550	22,869	0.155				
Oct-97	23	260,719	11,336	23,151	0.282				
Nov-97	19	219,618	11,559	23,171	0.020				
Dec-97	22	228,605	10,391	23,064	-0.106				
Jan-98	20	228,030	11,402	23,157	0.093				
Feb-98	19	250,266	13,172	23,301	0.144				
Mar-98	22	378,185	17,190	23,568	0.266				
Apr-98	21	242,310	11,539	23,169	-0.399				
May-98	20	298,454	14,923	23,426	0.257				
Jun-98	22	328,994	14,954	23,428	0.002				
Jul-98	22	272,957	12,407	23,242	-0.187				
Aug-98	21	392,104	18,672	23,650	0.409				
Sep-98	21	325,144	15,483	23,463	-0.187				
Oct-98	22	139,766	6,354	22,572	-0.891				
Nov-98	20	269,065	13,453	23,322	0.750				
Dec-98	22	248,596	11,300	23,148	-0.174				
Jan-99	19	253,448	13,339	23,314	0.166				
Feb-99	19	217,433	11,444	23,161	-0.153				
Mar-99	23	415,145	18,050	23,616	0.456				
Apr-99	21	431,280	20,537	23,746	0.129				
May-99	20	229,082	11,454	23,162	-0.584				
Jun-99	22	367,943	16,725	23,540	0.379				
Jul-99	21	332,623	15,839	23,486	-0.054				
Aug-99	22	240,157	10,916	23,114	-0.372				
Sep-99	21	236,011	11,239	23,143	0.029				
Oct-99	21	216,883	10,328	23,058	-0.085				
Nov-99	21	372,582	17,742	23,599	0.541				
Dec-99	22	319,846	14,538	23,400	-0.199				

Data

(A) Month	(B) # of Trading Days in Month	(C) Aggregate Maximum Offering Prices, in \$Millions	(D) Average Daily Aggregate Max. Offering Prices (AAMOP) in \$Millions	(E) log(AAMOP)	(F) Change in AAMOP	(G) Forecast log(AAMOP)	(H) Standard Error	(I) Forecast AAMOP, in \$Millions	(J) Forecast Aggregate Maximum Offering Prices, in \$Millions
Jan-00	20	282,165	14,108	23,370	-0.030				
Feb-00	20	665,367	33,268	24,228	0.858				
Mar-00	23	550,107	23,918	23,898	-0.330				
Apr-00	19	244,510	12,869	23,278	-0.620				
May-00	22	269,774	12,262	23,230	-0.048				
Jun-00	22	406,409	18,473	23,640	0.410				
Jul-00	20	230,894	11,545	23,169	-0.470				
Aug-00	23	257,797	11,209	23,140	-0.030				
Sep-00	20	332,120	16,606	23,533	0.393				
Oct-00	22	362,493	16,477	23,525	-0.008				
Nov-00	21	317,653	15,126	23,440	-0.086				
Dec-00	20	246,006	12,300	23,233	-0.207				
Jan-01	21	462,726	22,035	23,816	0.583				
Feb-01	19	388,304	20,437	23,741	-0.075				
Mar-01	22	523,443	23,793	23,893	0.152				
Apr-01	20	289,212	14,461	23,395	-0.498				
May-01	22	274,298	12,468	23,246	-0.148				
Jun-01	21	348,268	16,584	23,532	0.285				
Jul-01	21	264,590	12,600	23,257	-0.275				
Aug-01	23	245,591	10,678	23,091	-0.165				
Sep-01	15	178,524	11,902	23,200	0.108				
Oct-01	23	260,719	11,336	23,151	-0.049				
Nov-01	21	286,199	13,629	23,335	0.184				
Dec-01	20	395,230	19,762	23,707	0.372				
Jan-02	21	401,290	19,109	23,673	-0.034				
Feb-02	19	476,837	25,097	23,946	0.273				
Mar-02	20	380,160	19,008	23,668	-0.278				
Apr-02	22	282,947	12,861	23,277	-0.391				
May-02	22	215,645	9,802	23,006	-0.272				
Jun-02	20	277,757	13,888	23,354	0.348				
Jul-02	22	208,638	9,484	22,973	-0.381				

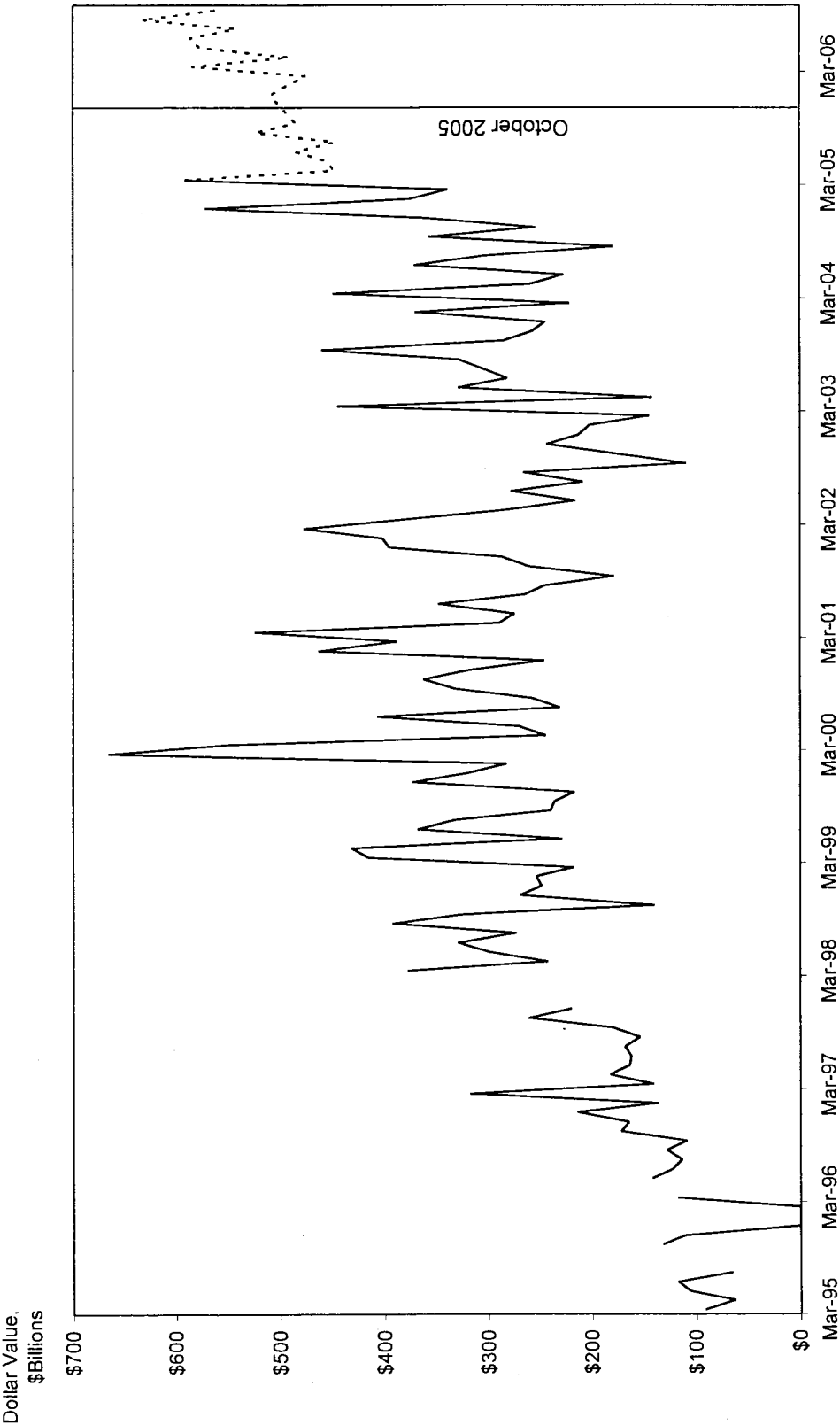
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(A) Month	(B) # of Trading Days in Month	(C) Aggregate Maximum Offering Prices, in \$Millions	(D) Average Daily Aggregate Max. Offering Prices (AAMOP) in \$Millions	(E) log(AAMOP)	(F) Change in AAMOP	(G) Forecast log(AAMOP)	(H) Standard Error	(I) Forecast AAMOP, in \$Millions	(J) Forecast Aggregate Maximum Offering Prices, in \$Millions
Aug-02	22	265,750	12,080	23.215	0.242				
Sep-02	20	109,565	5,478	22.424	-0.791				
Oct-02	23	179,374	7,799	22.777	0.353				
Nov-02	20	243,590	12,179	23.223	0.446				
Dec-02	21	212,838	10,135	23.039	-0.184				
Jan-03	21	201,839	9,611	22.986	-0.053				
Feb-03	19	144,642	7,613	22.753	-0.233				
Mar-03	21	444,331	21,159	23.775	1.022				
Apr-03	21	142,373	6,780	22.637	-1.138				
May-03	21	328,792	15,657	23.474	0.837				
Jun-03	21	281,560	13,409	23.319	-0.155				
Jul-03	22	304,383	13,836	23.351	0.031				
Aug-03	21	328,351	15,636	23.473	0.122				
Sep-03	21	459,563	21,884	23.809	0.336				
Oct-03	23	285,039	12,393	23.240	-0.569				
Nov-03	19	257,779	13,567	23.331	0.091				
Dec-03	22	244,998	11,136	23.133	-0.197				
Jan-04	20	369,784	18,489	23.640	0.507				
Feb-04	19	221,517	11,659	23.179	-0.461				
Mar-04	23	448,543	19,502	23.694	0.514				
Apr-04	21	260,029	12,382	23.240	-0.454				
May-04	20	227,239	11,362	23.154	-0.086				
Jun-04	21	370,668	17,651	23.594	0.441				
Jul-04	21	305,519	14,549	23.401	-0.193				
Aug-04	22	179,688	8,168	22.823	-0.577				
Sep-04	21	357,007	17,000	23.556	0.733				
Oct-04	21	254,489	12,119	23.218	-0.338				
Nov-04	21	363,406	17,305	23.574	0.356				
Dec-04	22	570,918	25,951	23.979	0.405				
Jan-05	20	375,484	18,774	23.656	-0.324				
Feb-05	19	338,922	17,838	23.605	-0.051				
Mar-05	22	590,862	26,857	24.014	0.409				

Data

(A) Month	(B) # of Trading Days in Month	(C) Aggregate Maximum Offering Prices, in \$Millions	(D) Average Daily Aggregate Max. Offering Prices (AAMOP) in \$Millions	(E) log(AAMOP)	(F) Change in AAMOP	(G) Forecast log(AAMOP)	(H) Standard Error	(I) Forecast AAMOP, in \$Millions	(J) Forecast Aggregate Maximum Offering Prices, in \$Millions
Apr-05	21					23.733	0.314	21,309	447,484
May-05	21					23.746	0.324	21,651	454,676
Jun-05	22					23.759	0.333	21,999	483,982
Jul-05	20					23.771	0.343	22,353	447,055
Aug-05	23					23.784	0.352	22,712	522,377
Sep-05	21					23.797	0.361	23,077	484,618
Oct-05	21					23.810	0.370	23,448	492,407
Nov-05	21					23.822	0.378	23,825	500,321
Dec-05	21					23.835	0.387	24,208	508,362
Jan-06	20					23.848	0.395	24,597	491,936
Feb-06	19					23.861	0.403	24,992	474,850
Mar-06	23					23.873	0.411	25,394	584,057
Apr-06	19					23.886	0.418	25,802	490,236
May-06	22					23.899	0.426	26,217	576,765
Jun-06	22					23.912	0.433	26,638	586,035
Jul-06	20					23.924	0.441	27,066	541,321
Aug-06	23					23.937	0.448	27,501	632,525
Sep-06	20					23.950	0.455	27,943	558,862

Figure A
Aggregate Maximum Offering Prices Subject to Securities Act Section 6(b)
(Dashed Line Indicates Forecast Values)



Appendix B

With the passage of the Investor and Capital Markets Relief Act, Congress has, among other things, established a target amount of monies to be collected from fees charged to investors based on the value of their transactions. This appendix provides the formula for determining such fees, which the Commission adjusts annually, and may adjust semi-annually.¹⁸ 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 dollar transaction volume on the securities exchanges and certain over-the-counter markets over the course of the year. As a percentage, the fee rate equals the ratio of the target amounts of monies to the projected dollar transaction volume.

For 2006, the Commission has estimated dollar transaction volume by projecting forward the trend established in the previous decade. More specifically, dollar transaction volume was forecasted for months subsequent to March 2005, the last month for which the Commission has data on transaction volume.

The following sections describe this process in detail.

A. Baseline Estimate of the Aggregate Dollar Amount of Sales for Fiscal Year 2006

First, calculate the average daily dollar amount of sales (ADS) for each month in the sample (March 1995–March 2005). The monthly aggregate dollar amount of sales (exchange plus certain over-the-counter markets) is presented in column C of Table B.

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 0.015 and the standard deviation 0.117. 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 2.3 percent.

Now, use the expected monthly percentage growth rate to forecast total dollar volume. For example, one can use the ADS for March 2005 (\$136,873,904,911) to forecast ADS for April 2005 ($\$139,958,043,570 = \$136,873,904,911 \times 1.023$).¹⁹ Multiply by the number of trading days in April 2005 (21) to obtain a forecast of the total dollar volume for the month (\$2,939,118,914,973). Repeat the method to generate forecasts for subsequent months.

The forecasts for total dollar volume are in column G of Table B. 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 $\Delta_t = \log(\text{ADS}_t / \text{ADS}_{t-1})$, 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 $\mu = 0.015$ and $\sigma = 0.117$, respectively.

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 $\text{ADS}_t / \text{ADS}_{t-1}$ is given by $\exp(\mu + \sigma^2/2)$, or on average $\text{ADS}_t = 1.023 \times \text{ADS}_{t-1}$.

¹⁹ The value 1.023 has been rounded. All computations are done with the unrounded value.

6. For April 2005, this gives a forecast ADS of $1.023 \times \$136,873,904,911 =$

$\$139,958,043,570$. Multiply this figure by the 21 trading days in April 2005 to obtain a total dollar volume forecast of \$2,939,118,914,973.

7. For May 2005, multiply the April 2005 ADS forecast by 1.023 to obtain a forecast ADS of \$143,111,676,201. Multiply this figure by the 21 trading days in May 2005 to obtain a total dollar volume forecast of \$3,005,345,200,226.

8. Repeat this procedure for subsequent months.

B. Using the Forecasts From A to Calculate the New Fee Rate

1. Use Table B to estimate fees collected for the period 10/1/05 through 10/31/05. The projected aggregate dollar amount of sales for this period is \$3,359,544,441,122. Projected fee collections at the current fee rate of 0.0000418 are \$140,428,958.

2. Estimate the amount of assessments on securities futures products collected during 10/1/05 and 9/30/06 to be \$110,180 by projecting a 2.3% monthly increase from a base of \$6,889 in March 2005.

3. Subtract the amounts \$140,428,958 and \$110,180 from the target offsetting collection amount set by Congress of \$1,435,000,000 leaving \$1,294,460,862 to be collected on dollar volume for the period 11/1/05 through 9/30/06.

4. Use Table B to estimate dollar volume for the period 11/1/05 through 9/30/06. The estimate is \$42,195,348,170,831. Finally, compute the fee rate required to produce the additional \$1,294,460,862 in revenue. This rate is \$1,294,460,862 divided by \$42,195,348,170,831 or 0.0000306778.

5. Consistent with the system requirements of the exchanges and the NASD, round the result to the seventh decimal point, yielding a rate of .0000307 (or \$30.70 per million).

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¹⁸ Congress requires that the Commission make a mid-year adjustment to the fee rate if 4 months into the fiscal year it determines that its forecasts of aggregate dollar volume are reasonably likely to be off by 10% or more.

Table B. Estimation of baseline of the aggregate dollar amount of sales.

Fee rate calculation.

a. Baseline estimate of the aggregate dollar amount of sales, 10/1/05 to 10/31/05 (\$Millions)	3,359,544
b. Baseline estimate of the aggregate dollar amount of sales, 11/1/05 to 9/30/06 (\$Millions)	42,195,348
c. Estimated collections in assessments on securities futures products in FY 2006 (\$Millions)	0.110
d. Implied fee rate $((\$1,435,000,000 - 0.0000418 * a - c) / b)$	\$30.7

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
Mar-95	23	491,872,609,718	21,385,765,640	-		
Apr-95	19	435,327,633,818	22,911,980,727	0.069		
May-95	22	531,855,060,379	24,175,230,017	0.054		
Jun-95	22	574,332,213,609	26,106,009,710	0.077		
Jul-95	20	576,049,335,831	28,802,466,792	0.098		
Aug-95	23	570,638,726,060	24,810,379,394	-0.149		
Sep-95	20	578,133,939,676	28,906,696,984	0.153		
Oct-95	22	642,190,178,035	29,190,462,638	0.010		
Nov-95	21	596,424,550,565	28,401,169,075	-0.027		
Dec-95	20	624,610,441,037	31,230,522,052	0.095		
Jan-96	22	687,599,091,854	31,254,504,175	0.001		
Feb-96	20	687,232,471,273	34,361,623,564	0.095		
Mar-96	21	714,836,120,093	34,039,815,243	-0.009		
Apr-96	21	704,410,318,022	33,543,348,477	-0.015		
May-96	22	768,379,507,489	34,926,341,250	0.040		
Jun-96	20	631,098,780,223	31,554,939,011	-0.102		
Jul-96	22	688,428,728,384	31,292,214,927	-0.008		
Aug-96	22	570,109,772,036	25,914,080,547	-0.189		
Sep-96	20	617,243,881,688	30,862,194,084	0.175		
Oct-96	23	764,269,441,454	33,229,106,150	0.074		
Nov-96	20	748,494,700,419	37,424,735,021	0.119		
Dec-96	21	764,479,496,753	36,403,785,560	-0.028		
Jan-97	22	957,432,637,586	43,519,665,345	0.179		
Feb-97	19	837,174,183,446	44,061,799,129	0.012		
Mar-97	20	839,192,728,788	41,959,636,439	-0.049		
Apr-97	22	862,799,213,315	39,218,146,060	-0.068		
May-97	21	925,733,852,647	44,082,564,412	0.117		
Jun-97	21	930,409,085,859	44,305,194,565	0.005		
Jul-97	22	1,085,682,706,898	49,349,213,950	0.108		
Aug-97	21	1,031,344,138,751	49,111,625,655	-0.005		
Sep-97	21	1,036,460,244,602	49,355,249,743	0.005		
Oct-97	23	1,329,653,432,718	57,811,018,814	0.158		
Nov-97	19	926,017,878,587	48,737,783,084	-0.171		
Dec-97	22	1,046,220,806,199	47,555,491,191	-0.025		
Jan-98	20	1,037,925,292,902	51,896,264,645	0.087		
Feb-98	19	1,081,705,333,396	56,931,859,652	0.093		
Mar-98	22	1,259,994,685,467	57,272,485,703	0.006		
Apr-98	21	1,298,494,359,253	61,833,064,726	0.077		
May-98	20	1,110,221,658,995	55,511,082,950	-0.108		
Jun-98	22	1,243,779,791,913	56,535,445,087	0.018		
Jul-98	22	1,399,011,433,748	63,591,428,807	0.118		
Aug-98	21	1,307,501,463,442	62,261,974,450	-0.021		
Sep-98	21	1,352,428,235,083	64,401,344,528	0.034		
Oct-98	22	1,460,835,397,598	66,401,608,982	0.031		
Nov-98	20	1,298,403,768,065	64,920,188,403	-0.023		
Dec-98	22	1,442,697,787,306	65,577,172,150	0.010		
Jan-99	19	1,884,555,055,910	99,187,108,206	0.414		
Feb-99	19	1,656,058,202,765	87,160,958,040	-0.129		
Mar-99	23	1,908,967,664,074	82,998,594,090	-0.049		
Apr-99	21	2,177,601,770,622	103,695,322,411	0.223		
May-99	20	1,784,400,906,987	89,220,045,349	-0.150		

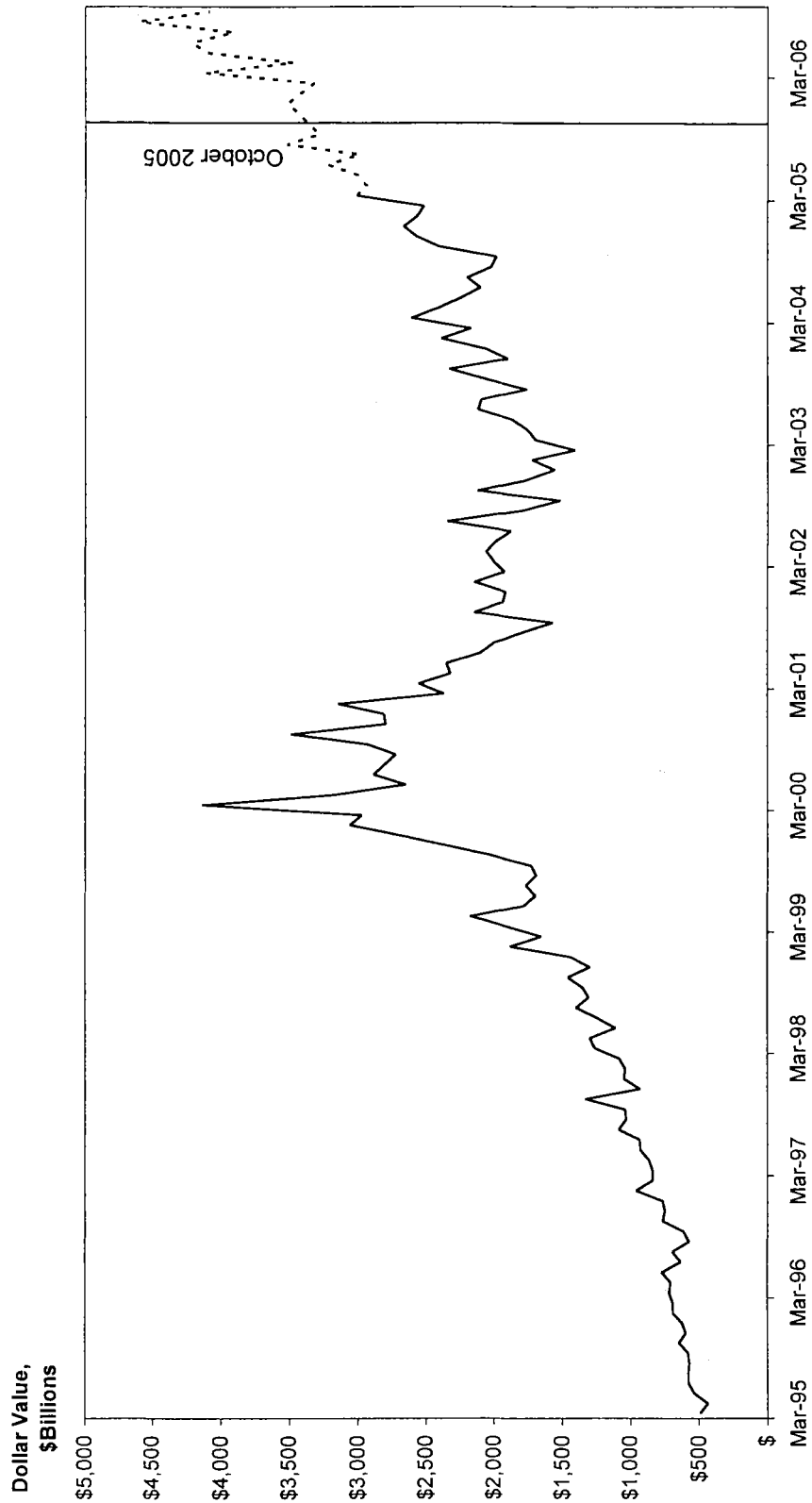
Data

(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
Jun-99	22	1,697,339,227,503	77,151,783,068	-0.145		
Jul-99	21	1,767,035,098,986	84,144,528,523	0.087		
Aug-99	22	1,692,907,150,726	76,950,325,033	-0.089		
Sep-99	21	1,730,505,881,178	82,405,041,961	0.068		
Oct-99	21	2,017,474,765,542	96,070,226,931	0.153		
Nov-99	21	2,348,374,009,334	111,827,333,778	0.152		
Dec-99	22	2,686,788,531,991	122,126,751,454	0.088		
Jan-00	20	3,057,831,397,113	152,891,569,856	0.225		
Feb-00	20	2,973,119,888,063	148,655,994,403	-0.028		
Mar-00	23	4,135,152,366,234	179,789,233,315	0.190		
Apr-00	19	3,174,694,525,687	167,089,185,562	-0.073		
May-00	22	2,649,273,207,318	120,421,509,424	-0.328		
Jun-00	22	2,883,513,997,781	131,068,818,081	0.085		
Jul-00	20	2,804,753,395,361	140,237,669,768	0.068		
Aug-00	23	2,720,788,395,832	118,295,147,645	-0.170		
Sep-00	20	2,930,188,809,012	146,509,440,451	0.214		
Oct-00	22	3,485,926,307,727	158,451,195,806	0.078		
Nov-00	21	2,795,778,876,887	133,132,327,471	-0.174		
Dec-00	20	2,809,917,349,851	140,495,867,493	0.054		
Jan-01	21	3,143,501,125,244	149,690,529,774	0.063		
Feb-01	19	2,372,420,523,286	124,864,238,068	-0.181		
Mar-01	22	2,554,419,085,113	116,109,958,414	-0.073		
Apr-01	20	2,324,349,507,745	116,217,475,387	0.001		
May-01	22	2,353,179,388,303	106,962,699,458	-0.083		
Jun-01	21	2,111,922,113,236	100,567,719,678	-0.062		
Jul-01	21	2,004,384,034,554	95,446,858,788	-0.052		
Aug-01	23	1,803,565,337,795	78,415,884,252	-0.197		
Sep-01	15	1,573,484,946,383	104,898,996,426	0.291		
Oct-01	23	2,147,238,873,044	93,358,211,871	-0.117		
Nov-01	21	1,939,427,217,518	92,353,677,025	-0.011		
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		

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
Mar-04	23	2,609,443,903,115	113,454,082,744	-0.010		
Apr-04	21	2,411,279,535,948	114,822,835,045	0.012		
May-04	20	2,253,135,847,669	112,656,792,383	-0.019		
Jun-04	21	2,106,449,803,404	100,307,133,495	-0.116		
Jul-04	21	2,203,895,014,681	104,947,381,851	0.045		
Aug-04	22	2,027,596,448,411	92,163,474,928	-0.130		
Sep-04	21	1,987,600,524,436	94,647,644,021	0.027		
Oct-04	21	2,407,510,766,755	114,643,369,845	0.192		
Nov-04	21	2,569,603,672,744	122,362,079,654	0.065		
Dec-04	22	2,665,401,027,431	121,154,592,156	-0.010		
Jan-05	20	2,568,660,178,458	128,433,008,923	0.058		
Feb-05	19	2,518,328,348,671	132,543,597,298	0.032		
Mar-05	22	3,011,225,908,037	136,873,904,911	0.032		
Apr-05	21				139,958,043,570	2,939,118,914,973
May-05	21				143,111,676,201	3,005,345,200,226
Jun-05	22				146,336,368,691	3,219,400,111,197
Jul-05	20				149,633,722,209	2,992,674,444,186
Aug-05	23				153,005,374,006	3,519,123,602,138
Sep-05	21				156,452,998,222	3,285,512,962,655
Oct-05	21				159,978,306,720	3,359,544,441,122
Nov-05	21				163,583,049,938	3,435,244,048,695
Dec-05	21				167,269,017,754	3,512,649,372,828
Jan-06	20				171,038,040,377	3,420,760,807,544
Feb-06	19				174,891,989,257	3,322,947,795,890
Mar-06	23				178,832,778,012	4,113,153,894,277
Apr-06	19				182,862,363,378	3,474,384,904,185
May-06	22				186,982,746,183	4,113,620,416,029
Jun-06	22				191,195,972,338	4,206,311,391,444
Jul-06	20				195,504,133,855	3,910,082,677,106
Aug-06	23				199,909,369,884	4,597,915,507,330
Sep-06	20				204,413,867,775	4,088,277,355,503

Figure B.
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.

[FR Doc. 05-8916 Filed 5-3-05; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-51623; File No. SR-FICC-2004-17]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Granting Approval of a Proposed Rule Change To Modify the Assessment Process for Late Submissions of Collateral Made Through the GCF Repo Service and To Increase the Types of Securities Available To Satisfy Collateral Allocation Obligations

April 28, 2005.

I. Introduction

On August 13, 2004, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") and on March 14, 2005, amended proposed rule change File No. SR-FICC-2004-17 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposed rule change was published in the **Federal Register** on March 29, 2005.² No comment letters were received. For the reasons discussed below, the Commission is now granting approval of the proposed rule change.

II. Description

FICC is amending the rules of the Government Securities Division ("GSD") of FICC to modify the assessment process for late submissions of collateral allocations made through its GCF Repo service and to increase the types of securities that can be used by a member in satisfaction of collateral obligations.³

1. Assessment Process for Late Submissions of Collateral Allocations Made Through the GCF Repo Service

On October 30, 1998, the Commission granted approval to FICC's predecessor, the Government Securities Clearing Corporation, to implement its GCF Repo service, which is a significant alternative financing vehicle to the

delivery versus payment and tri-party repo markets.⁴ That approval included a fine schedule for failure to adhere to relevant timeframes. The fine schedule was not implemented because of certain events.⁵ More recently, FICC has shifted the service from an interbank service to an intrabank service in order to address certain payment system risk issues that have arisen and that have resulted in decreased volumes.⁶ FICC believes, given the lower volumes and likely forthcoming changes to the service to address the payment system risk issues, that the original fine schedule should be replaced.

Specifically, FICC is implementing a late fee schedule to replace the late fine schedule. FICC believes that late fee schedules are appropriate in situations where the member's lateness causes an operational burden on FICC but does not result in risk to FICC or its members.⁷ In addition, in order to encourage members to make their collateral allocations on a timely basis, there will now be one late fee targeted to the most significant time frame surrounding the service. Specifically, if a dealer does not make the required collateral allocation by the later of 4:30 p.m. (New York time) or 1 hour after the actual close of Fedwire GCF repo reversals, the dealer will be subject to a late fee of \$500.00. Finally, in order to alleviate the potential operational and administrative burdens caused by late collateral allocations, FICC is amending the GCF Repo rules to provide that FICC will process collateral allocation obligations that are received after 6 p.m. on a good faith basis only. This 6 p.m. deadline will replace the 7 p.m. final cutoff for dealer allocations of collateral to satisfy obligations.

2. Types of Collateral Used To Satisfy Collateral Allocation Obligations

Currently, GSD Rule 20 provides that a collateral allocation obligation may be satisfied with "comparable securities," Treasury securities, and/or cash. "Comparable securities" are defined to include any securities that are represented by the same generic CUSIP

number as the securities in question. Therefore, in the event that a member does not have enough of the collateral securities or the "comparable securities," the only collateral that can be used is Treasury securities and/or cash.

GSD members have approached FICC and have asked that it amend rules to add certain additional collateral options. In response, FICC is amending its rules as set forth below:

(a) Ginnie Mae adjustable-rate mortgage obligations can be satisfied with Ginnie Mae fixed-rate mortgage backed securities and

(b) Fannie Mae and Freddie Mac adjustable-rate mortgage obligations can be satisfied with: (i) Fannie Mae and Freddie Mac fixed-rate mortgage-backed securities, (ii) Ginnie Mae fixed-rate mortgage-backed securities, and (iii) Ginnie Mae adjustable-rate mortgage obligations.

III. Discussion

Section 17A(b)(3)(F) of the Act requires among other things that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.⁸ The Commission finds that by allowing FICC's members additional collateral options with which to meet GCF collateral allocation obligations and by implementing a fee schedule that should incentivize members to allocate collateral on a timely basis, FICC's proposed rule change should promote the prompt and accurate clearance and settlement of GCF Repo transactions. As such, FICC's proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-FICC-2004-17) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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¹ 15 U.S.C. 78s(b)(1).² Securities Exchange Act Release No. 51413 (March 23, 2005), 70 FR 15960.³ The proposed rule change also amends GSD's rules to clarify that where a collateral allocation obligation is satisfied by the posting of U.S. Treasury Bills, notes, or bonds, such securities must mature in a time frame no greater than that of the securities that have been traded except if such traded securities are U.S. Treasury Bills, such obligations must be satisfied with the posting of "comparable securities" and/or cash only.⁴ Securities Exchange Act Release No. 40623 (October 30, 1998), 63 FR 59831 (November 5, 1998) [File No. SR-GSCC-98-02].⁵ As a new and complex service, members had difficulty adhering to the time frames. In addition, the initial rate of participation was very low, and there was a need to encourage growth in the service.⁶ Securities Exchange Act Release No. 48006 (June 10, 2003), 68 FR 35745 (June 16, 2003) [SR-FICC-2003-04].⁷ In a GCF Repo transaction, a borrower does not receive the funds borrowed until it makes the required collateral allocation. The lender maintains control of the funds until the allocation is made. The transaction does not produce a risk of loss to FICC, the lender, or other members.⁸ 15 U.S.C. 78q-1(b)(3)(F).⁹ 15 U.S.C. 78s(b)(2).¹⁰ 17 CFR 200.30-3(a)(12).