

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 52839 / November 28, 2005

INVESTMENT ADVISERS ACT OF 1940
Release No. 2448 / November 28, 2005

INVESTMENT COMPANY ACT OF 1940
Release No. 27167 / November 28, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-12111

In the Matter of

**FEDERATED INVESTMENT
MANAGEMENT COMPANY,
FEDERATED SECURITIES CORP. and
FEDERATED SHAREHOLDER
SERVICES COMPANY,**

Respondents.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND-DESIST
ORDER PURSUANT TO SECTIONS
15(b)(4) AND 17A(c)(3) OF THE
SECURITIES EXCHANGE ACT OF 1934,
SECTIONS 203(e) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940,
AND SECTIONS 9(b) AND 9(f) OF THE
INVESTMENT COMPANY ACT OF 1940**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b)(4) and 17A(c)(3) of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Federated Investment Management Company, Federated Securities Corp. and Federated Shareholder Services Company (collectively, the “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 15(b)(4) and 17A(c)(3) of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds¹ that:

A. Summary

1. This is a proceeding against three registered subsidiaries of Federated Investors, Inc., one of the largest mutual fund managers in the United States, involving undisclosed market timing arrangements and late trading. Federated Investment Management Company (“FIMC”), a registered investment adviser to mutual funds in the Federated mutual fund complex (the “Federated Funds”), and Federated Securities Corp. (“FSC”), a registered broker-dealer and distributor for the Federated Funds, violated the Advisers Act and Investment Company Act by approving, but not disclosing, three market timing arrangements, or the associated conflict of interest between FIMC and the funds involved in the arrangements, either to other Federated Fund shareholders or to the funds’ Boards of Trustees.² In addition, Federated Shareholder Services Company (“FSSC”), formerly a registered transfer agent, allowed a customer and a Federated employee to late trade.

2. At the time they entered into the market timing arrangements, FIMC and FSC recognized that certain types of market timing could be generally detrimental to certain of the Federated Funds and could, among other things, compromise the investment strategies of portfolio managers and increase costs for long-term shareholders. From March 2002 through August 2003, notwithstanding prospectus disclosure and internal procedures designed to prevent market timing, FIMC and FSC provided approved “timing capacity” in certain mutual funds to three entities, one of which was Canary Capital Partners LLC, and never disclosed these arrangements to other

¹ The findings herein are made pursuant to Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

² The “Boards of Trustees” refer, collectively, to the trustees of Federated Funds organized as business trusts and the directors of Federated Funds organized as corporations.

Federated Fund shareholders. In return, Canary made a separate investment of non-timed assets, so-called “sticky assets,” in a Federated fund. Both the timed assets and the “sticky assets” produced advisory and other fees for FIMC, FSC and FSSC.

B. Respondents and Related Entity

3. Federated Investors, Inc., headquartered in Pittsburgh, Pennsylvania, is a publicly traded company listed on the New York Stock Exchange and is one of the largest mutual fund managers in the United States. As of June 30, 2005, Federated Investors managed approximately \$205 billion in assets. FIMC, FSC and FSSC are wholly owned subsidiaries of FII Holdings, Inc., a subsidiary of Federated Investors.

4. Federated Investment Management Company is a Delaware business trust headquartered in Pittsburgh, Pennsylvania, and an investment adviser registered with the Commission since 1989. During the relevant time, FIMC provided investment advisory services to Federated Funds that invest primarily in securities traded in the United States.

5. Federated Securities Corp. is a Pennsylvania corporation headquartered in Pittsburgh, and is a broker-dealer registered with the Commission since 1970. It serves as the principal underwriter and distributor for the Federated Funds. FSC distributes the Federated Funds primarily through intermediaries such as broker-dealers, banks, investment advisers, and other institutions.

6. Federated Shareholder Services Company is a Delaware business trust headquartered in McCandless, Pennsylvania, and was a transfer agent registered with the Commission until July 1, 2005, when it withdrew its registration. During the relevant period, FSSC served as the transfer agent for all Federated Funds.³

C. Facts

Market Timing and Late Trading

7. Market timing includes (a) frequent buying and selling of shares of the same mutual fund or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal per se, can harm other mutual fund shareholders because it can dilute the value of their shares. Market timing can also disrupt the management of the mutual fund’s investment portfolio and cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by the market timer.

8. Rule 22c-1(a) under the Investment Company Act requires registered investment companies issuing redeemable securities, their principal underwriters and dealers, and any person designated in the fund’s prospectus as authorized to consummate transactions in securities issued by the fund to sell and redeem fund shares at a price based on the current net asset value (“NAV”)

³ FSSC no longer processes trades for the Federated Funds, but continues to provide other shareholder services.

next computed after receipt of an order to buy or redeem. Mutual funds generally determine the daily price of mutual fund shares as of 4:00 p.m. ET. The relevant Federated Funds' prospectuses state that orders received before 4:00 p.m. are executed at the price determined as of 4:00 p.m. that day, and orders received after 4:00 p.m. are executed at the price determined as of 4:00 p.m. the next trading day. In addition, at the time of the conduct described below, the prospectuses authorized the purchase, redemption, and exchange of shares through FSSC.

9. "Late trading" refers to the practice of placing orders to buy or redeem mutual fund shares after the time as of which a mutual fund has calculated its NAV (usually as of the close of trading at 4:00 p.m. ET), but receiving the price based on the prior NAV already determined as of 4:00 p.m. Late trading enables the trader to profit from market events that occur after 4:00 p.m. but that are not reflected in that day's price. In particular, the late trader obtains an advantage – at the expense of the other shareholders of the mutual fund – when he learns of market moving information and is able to purchase (or redeem) mutual fund shares at prices set *before* the market moving information was released. Late trading violates Rule 22c-1(a) under the Investment Company Act and harms other shareholders when late trading dilutes the value of their shares.

Respondents' Timing Policies

10. At all times during the existence of the approved timing arrangements, FIMC, FSC and FSSC had internal procedures designed to identify and prevent market timing in the Federated Funds. As early as 1998, FIMC and FSC recognized the harmful effects that market timing had on certain funds. Within FIMC, the harm from market timing was expressly acknowledged and documented in internal memoranda and other communications. In response to the awareness of the potential harm from allowing market timers to invest in funds, beginning in late 1998 the prospectuses of Federated Funds that permitted exchanges disclosed that:

The Fund may modify or terminate the exchange privilege at any time. The Fund's management or Adviser may determine from the amount, frequency and pattern of exchanges that a shareholder is engaged in excessive trading that is detrimental to the Fund and other shareholders. If this occurs, the Fund may terminate the availability of exchanges to that shareholder and may bar that shareholder from purchasing other Federated funds.

11. This prospectus disclosure told shareholders, in effect, that FIMC or the Federated Fund's management was making a determination concerning whether such activities were causing damage to shareholders and, if so, terminating a shareholder's ability to trade in Federated Funds. In fact, as outlined below, FIMC and FSC specifically allowed certain investors to market time certain funds without sufficient regard to whether the trading was "detrimental" to the particular fund or its other shareholders, and without disclosing the market timing arrangement.

12. FIMC and FSC formalized their policy not to solicit market timers in 1999. Thereafter, certain employees of FSSC were designated to act as "timing police" in order to monitor trading and address FIMC and FSC's concerns about market timers. Although the prospectuses of funds without an exchange privilege did not contain any disclosures regarding

frequent trading or market timing, the “timing police” enforced the timing policy irrespective of the prospectus disclosure of a particular fund.

13. The Respondents’ efforts to address market timing culminated in procedures designed to identify and stop market timing in the Federated Funds, which were fully implemented by the end of 2000. The written procedures defined the patterns of trading that would ordinarily be treated as detrimental market timing. The Respondents enhanced the procedures as they gained experience in combating market timing. If a market timer was identified, a stop was placed on the account and on all associated accounts, thereby preventing subsequent exchanges or purchases, regardless of whether timing activity was found in the associated accounts. A letter to the shareholder describing the action taken explained that market timing is “contrary to Federated’s portfolio management philosophy and impairs fund performance” and is “not in the best interest of the funds or other investors.” Over time, the “timing police” placed stops on several thousand accounts because of market timing.

14. However, at the same time that the “timing police” were policing market timing, and prohibiting other shareholders from engaging in it, FIMC and FSC entered into several arrangements to allow market timers to frequently trade in certain Federated Funds.

Approved Timing Arrangements

The Canary Capital Arrangement

15. In January 2003, FIMC and FSC agreed to allow Canary Capital Partners, a hedge fund managed by Edward J. Stern through his investment adviser Canary Investment Management, LLC (collectively “Canary Capital”), to market time six Federated Funds. The arrangement was approved by senior officers of FIMC and FSC.

16. During the fall of 2002, a former FSC Senior Vice President, with the assistance of others, negotiated the terms of a proposed arrangement to permit Canary Capital to market time six domestic equity funds: Federated Stock Trust, Federated American Leaders Fund, Federated Capital Appreciation Fund, Federated Max-Cap Index Fund, Federated Kaufmann Fund, and Federated Equity Income Fund. In exchange for the market timing capacity, Canary Capital proposed to place as much as \$50 million of “sticky assets” in the Federated Short-Term Euro Fund.

17. Ultimately, Canary Capital was given permission to trade \$50 million in two to three “roundtrips” per month in each of the six funds.

18. In mid-January 2003, Canary Capital invested \$28.8 million in a Federated money market fund and began trading in four of the proposed funds. By the end of February, Canary Capital was using more than \$84 million to market time five funds. Although Canary Capital was exceeding the agreed market timing amount, no one at FIMC or FSC was monitoring its trading at that time.

19. During March, the “timing police” independently identified the accounts through which Canary Capital was trading and placed stops on the accounts because the trading violated Respondents’ market timing procedures. FSSC removed the stops within days and permitted Canary Capital to continue trading, at FSC’s behest, after a member of the FSC sales group told the “timing police” that a senior officer of FSC had approved Canary Capital’s trading.

20. In early March, Canary Capital requested an increase in the number of roundtrips per month. Three weeks later, Canary Capital invested approximately \$10 million in “sticky assets” in the Euro Fund. By that time, Canary Capital had almost \$125 million in timing assets invested in Federated Funds. In May, FIMC and FSC increased the number of roundtrips but limited the number of funds in which timing was permitted. Canary Capital ultimately withdrew all of its assets from the Federated Funds, including the Euro Fund monies, in early July.

21. In all, from January 2003 to July 2003, Canary Capital conducted more than \$1.6 billion in aggregate market timing transactions in the six Federated Funds. During the less than six months that Canary Capital traded, it conducted a total of 46 roundtrips in the six funds. When the timing assets were not in the domestic equity funds, they were invested in a Federated money market fund. Canary Capital’s permitted timing trades resulted in substantial dilution to the Federated Funds and harm to shareholders. Canary Capital earned a total net profit of more than \$4.9 million from its trading.

22. In addition to management fees received from assets being timed by Canary Capital, Respondents received additional fees from the non-timed “sticky assets” placed in the Euro Fund.

Other Market Timing Arrangements

23. FIMC and FSC also entered into arrangements with two existing investors to market time high yield bond funds. Unlike market timing in equity funds, high yield bond fund market timing involves momentum-based trading in which many investors follow the same trading signal. This trading results in simultaneous purchases and redemptions that create cash flow problems and harm the fund’s performance.

24. The first investor, an adviser to a trust company, entered into an arrangement with FIMC and FSC in March 2002 to market time the Federated High Yield Trust after it was prohibited from trading due to market timing. The investor was required to provide the fund’s portfolio manager with two to three days notice before purchases and one to two days notice before redemptions. There was no agreement regarding the frequency of trading.

25. Through July 2003, this investor made seven roundtrip trades in the High Yield Trust in amounts of approximately \$18 million. Total transactions exceeded \$219 million. The investor earned a total net profit of over \$2.9 million from its trading. The trading resulted in substantial dilution to the Federated Funds and harm to shareholders.

26. In April 2003, the investor made a separate \$90 million investment of non-timed assets in the Federated Prime Cash Obligations Fund.

27. In May 2002, FIMC entered into a written agreement under which another investor, a registered broker-dealer, and its affiliated registered investment adviser, were permitted to make four roundtrip transactions per twelve-month period in the Federated High Income Bond Fund on behalf of their customers and clients, respectively. The investor traded in this fund through September 2003, making four roundtrips in amounts of approximately \$11 million. Total transactions exceeded \$90 million. The trading resulted in substantial dilution to the High Income Bond Fund and harm to shareholders. The investor earned a total net profit of over \$1.8 million from its trading.

Late Trading

28. FSSC's mutual fund trade processing system allowed FSSC employees, known as customer service representatives, to improperly process trades received after 4:00 p.m. at the current day's NAV. These customer service representatives incorrectly assigned that day's NAV to hundreds of fund orders placed after 4:00 p.m., exposing the Federated Fund shareholders to potential dilution.

29. Between June and September 2003, Veras Partners ("Veras"), a Texas hedge fund, while market timing 12 Federated Funds, executed at least 29 late trades that ranged in size from approximately \$87,000 to \$12 million by placing the trades through the customer service representatives. While Veras was seeking capacity to market time certain Federated Funds, an FSSC administrative level employee told its representatives that orders could be submitted as late as 4:30 p.m. ET and receive that day's NAV. Veras placed some of its trades as late as 4:55 p.m. ET. Veras profited by \$240,000 from its late trading.

30. In addition, between July 1998 and March 2003, a former FIMC and FSSC employee, while trading for his own account, entered at least 240 Federated Fund orders after 4:00 p.m. that received the current day's NAV. The late trades ranged in size from \$700 to \$27,000. The employee entered the trades either directly into FSSC's mutual fund order processing system or through a customer service representative. The employee profited by more than \$4,000 from his late trading.

D. Violations

31. As a result of the conduct described above, FIMC willfully violated Sections 206(1) and 206(2) of the Advisers Act in that, while acting as an investment adviser, it employed devices, schemes, or artifices to defraud investors or prospective investors, and engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon investors or prospective investors. Specifically, FIMC entered into market timing arrangements with Canary and two other investors that created a conflict of interest, which FIMC knowingly or recklessly failed to disclose to the Federated Funds' shareholders and Boards of Trustees. FSC

willfully aided and abetted and caused FIMC's violations of Sections 206(1) and 206(2) of the Advisers Act by knowingly providing substantial assistance to FIMC.

32. As a result of the conduct described above, FIMC and FSC willfully violated Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder, in that FIMC and FSC, as affiliated persons of the Federated Funds acting as principals, effected transactions in connection with joint arrangements in which certain Federated Funds were joint participants with FIMC and FSC in contravention of rules and regulations the Commission has prescribed for the purpose of limiting or preventing participation by registered companies, such as the Federated Funds, on a basis different from or less advantageous than that of such other participants without obtaining a Commission order approving the transactions. Specifically, FIMC and FSC entered into a joint arrangement with the Federated Funds whereby Canary Capital was permitted to market time certain Federated Funds in exchange for an investment of "sticky assets" without first obtaining an order of the Commission approving the transaction.

33. As a result of the conduct described above, FSSC willfully violated Rule 22c-1(a) under the Investment Company Act which prohibits registered investment companies issuing any redeemable security, persons designated in such issuer's prospectus as authorized to consummate transactions in such security, and any principal underwriter of, or dealer in any such security from selling, redeeming, or repurchasing any such security except at a price based on the current net asset value which is next computed after receipt of an order to purchase or redeem. Specifically, FSSC, designated in the Federated Funds' prospectuses as authorized to consummate transactions, accepted orders from investors after 4:00 p.m., and processed the orders at that day's NAV rather than the next day's NAV.

Remedial Efforts

34. In determining to accept the Offers, the Commission considered the cooperation afforded the Commission's staff by the Respondents during its investigation. This cooperation included conducting an independent internal investigation, sharing the results of that investigation with the Commission's staff, and implementing certain remedial measures. In addition, Respondents paid a total of \$8 million to Federated Funds affected by the conduct described in this Order.

Undertakings

35. In determining whether to accept the Offers, the Commission has further considered the following undertaking by FIMC, FSC, FSSC and the Federated Funds:

a. **Fund Governance.** The Federated Funds will operate in accordance with the following governance policies and practices, which the Funds have represented are currently in effect:

- i. No more than 25 percent of the members of the Board of Trustees of any Federated Fund will be persons who either

(a) were directors, officers or employees of FIMC, FSC or FSSC at any point during the preceding 10 years or (b) are interested persons, as defined in the Investment Company Act, of the Federated Funds or of FIMC, FSC or FSSC. (Trustees who do not meet either of the preceding criteria are referred to as “Independent Trustees.”) In the event that the Board of Trustees fails to meet this requirement at any time due to the death, resignation, retirement or removal of any Independent Trustee, the Independent Trustees will take such steps as may be necessary to bring the Board in compliance within a reasonable period of time;

ii. Any person who acts as counsel to the Independent Trustees of any Federated Fund will be an “independent legal counsel” as defined by Rule 0-1 under the Investment Company Act.

b. Independent Chairman. Within 45 days of the date of this Order, no chairman of the Board of Trustees of any Federated Fund will either (a) have been a director, officer, or employee of any Respondent at any point during the preceding 10 years or (b) be an interested person, as defined in the Investment Company Act, of the Federated Funds or of any Respondent.

c. Approval by Independent Trustees. No action will be taken by the Board of Trustees or by any committee thereof unless such action is approved by a majority of the Independent Trustees of the Board of Trustees or of such committee, as the case may be. In the event that any action proposed to be taken by and approved by a vote of a majority of the Independent Trustees of a Federated Fund is not approved by the full Board of Trustees, the Federated Fund subject to such action will disclose such proposal and the related board vote in its shareholder report for such period.

36. Ongoing Cooperation. In determining whether to accept the Offers, the Commission has considered the following undertaking by Respondents:

Each of the Respondents shall cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in the Order. In connection with such cooperation, FIMC, FSC and FSSC have undertaken:

a. To produce, without service of a notice or subpoena, any and all nonprivileged documents and other information requested by the Commission’s staff;

b. To use their best efforts to cause their employees to be interviewed by the Commission’s staff at such times as the staff reasonably may direct;

c. To use their best efforts to cause their employees to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be requested by the Commission's staff; and

d. That in connection with any testimony of FIMC, FSC or FSSC to be conducted at deposition, hearing or trial pursuant to a notice or subpoena, Respondents:

- i. Agree that any such notice or subpoena for FIMC, FSC or FSSC's appearance and testimony may be served by regular mail on: Federated Investors, Inc., 1001 Liberty Avenue, Pittsburgh, PA 15222, Attn: General Counsel.
- ii. Agree that any such notice or subpoena for any Federated entity's appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

37. Independent Compliance Consultant. FIMC and FSC shall retain, within 60 days of the date of the Order, the services of an Independent Compliance Consultant not unacceptable to the staff of the Commission and a majority of the Independent Trustees of the Federated Funds. The Independent Compliance Consultant's compensation and expenses shall be borne exclusively by the Respondents. FIMC and FSC shall require that the Independent Compliance Consultant conduct a comprehensive review of FIMC and FSC's supervisory, compliance, and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by FIMC, FSC and their employees. This review shall include, but shall not be limited to, a review of FIMC and FSC's market timing controls across all areas of their business, a review of Federated Funds' pricing practices that may make those funds vulnerable to market timing, a review of Federated Funds' utilization of short term trading fees and other controls for deterring excessive short term trading, and a review of FIMC and FSC's policies and procedures concerning conflicts of interest, including conflicts arising from advisory services to multiple clients. Prior to conducting its review, the Independent Compliance Consultant will review the Compliance Review Report issued by KPMG, LLP in April 2004 (the "2004 Compliance Report") and FIMC and FSC's implementation of the recommendations made in such report. The Independent Compliance Consultant will exclude from its compliance review any areas that it determines were covered adequately in the 2004 Compliance Report and were responded to appropriately by FIMC and FSC. FIMC and FSC shall cooperate fully with the Independent Compliance Consultant and shall provide the Independent Compliance Consultant with access to their files, books, records, and personnel as reasonably requested for the review.

a. FIMC and FSC shall require that, at the conclusion of the review, which in no event shall be more than 120 days after the date of entry of the Order,

the Independent Compliance Consultant shall submit a Report to FIMC and FSC, the Board of Trustees of the Federated Funds, and the staff of the Commission. FIMC and FSC shall require the Independent Compliance Consultant to address in the Report the issues described in subparagraph 37 of these undertakings, and to include a description of the review performed, the conclusions reached, the Independent Compliance Consultant's recommendations for changes in or improvements to policies and procedures of FIMC, FSC and the Federated Funds, and a procedure for implementing the recommended changes in or improvements to the FIMC and FSC's policies and procedures.

b. FIMC and FSC shall adopt all recommendations with respect to FIMC and FSC contained in the Report of the Independent Compliance Consultant; provided, however, that within 150 days from the date of the entry of the Order, FIMC and FSC shall in writing advise the Independent Compliance Consultant, the Board of Trustees of the Federated Funds, and the staff of the Commission of any recommendations that they consider to be unnecessary or inappropriate. With respect to any recommendation that FIMC and/or FSC considers unnecessary or inappropriate, FIMC and FSC need not adopt that recommendation at that time but shall propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose.

c. As to any recommendation with respect to FIMC and FSC's policies and procedures on which FIMC, FSC and the Independent Compliance Consultant do not agree, such parties shall attempt in good faith to reach an agreement within 180 days of the date of entry of the Order. In the event FIMC, FSC and the Independent Compliance Consultant are unable to agree on an alternative proposal acceptable to the staff of the Commission, FIMC and FSC will abide by the determinations of the Independent Compliance Consultant.

d. FIMC and FSC (i) shall not have the authority to terminate the Independent Compliance Consultant, without prior written approval of the majority of Independent Trustees and the staff of the Commission; (ii) shall compensate the Independent Compliance Consultant, and persons engaged to assist the Independent Compliance Consultant, for services rendered pursuant to the Order at their reasonable and customary rates; and (iii) shall not be in and shall not have an attorney-client relationship with the Independent Compliance Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Compliance Consultant from transmitting any information, reports, or documents to the Independent Trustees of the Federated Funds or the Commission.

e. FIMC and FSC shall require the Independent Compliance Consultant to enter into an agreement that provides that for the period of the engagement and for a period of two years from completion of the engagement, the Independent Compliance Consultant shall not enter into any employment,

consultant, attorney-client, auditing or other professional relationship with FIMC and/or FSC, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Compliance Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Compliance Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission's Philadelphia District Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with FIMC and/or FSC, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

38. Periodic Compliance Review. At least once every three years commencing at the conclusion of the Independent Compliance Consultant's review, described in paragraph 37, FIMC and FSC shall undergo a compliance review by a third party, who is not an interested person, as defined in the Investment Company Act. At the conclusion of the review, the third party shall issue a report of its findings and recommendations concerning FIMC and FSC's supervisory, compliance, and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by FIMC, FSC and their employees in connection with their duties and activities on behalf of and related to the Federated Funds. Each such report shall be promptly delivered to FIMC and FSC's Internal Compliance Controls Committee and to the Audit Committee of the Board of Trustees.

39. Independent Distribution Consultant. The Respondents shall retain, within 60 days of the date of entry of the Order, the services of an Independent Distribution Consultant not unacceptable to the staff of the Commission and to the majority of the Independent Trustees of the Federated Funds. The Independent Distribution Consultant's compensation and expenses shall be borne exclusively by the Respondents. The Respondents shall cooperate fully with the Independent Distribution Consultant and shall provide the Independent Distribution Consultant with access to their files, books, records, and personnel as reasonably requested for the review. The Respondents shall require that the Independent Distribution Consultant develop a Distribution Plan for the distribution of the disgorgement and penalty ordered in Paragraphs IV.H.1 and 2 of the Order, and any interest or earnings thereon, according to a methodology developed in consultation with the Respondents and the Independent Trustees of the affected Federated Funds and acceptable to the staff of the Commission. The Distribution Plan shall provide for investors in the funds to receive, from the monies available for distribution, in order of priority (i) their proportionate share of losses suffered by the fund due to market timing and late trading, and (ii) a proportionate share of advisory fees paid by funds that suffered such losses during the period of such market timing.

a. The Respondents shall require that the Independent Distribution Consultant submit a Distribution Plan to the Respondents, the Independent Trustees and the staff of the Commission no more than 160 days after the date of entry of the Order.

b. The Distribution Plan developed by the Independent Distribution Consultant shall be binding unless, within 190 days after the date of entry of the Order, the Respondents, the Independent Trustees or the staff of the Commission advises, in writing, the Independent Distribution Consultant of any determination or calculation from the Distribution Plan that it considers to be inappropriate and states in writing the reasons for considering such determination or calculation inappropriate.

c. With respect to any determination or calculation with which the Respondents, the Independent Trustees or the staff of the Commission do not agree, such parties shall attempt in good faith to reach an agreement within 220 days of the date of entry of the Order. In the event that the Respondents and the staff of the Commission are unable to agree on an alternative determination or calculation, the determinations and calculations of the Independent Distribution Consultant shall be binding.

d. Within 235 days of the date of entry of the Order, the Respondents shall require that the Independent Distribution Consultant submit the Distribution Plan for the administration and distribution of disgorgement and penalty funds pursuant to Rule 1101 [17 C.F.R. § 201.1101] of the Commission's Rules Regarding Fair Fund and Disgorgement Plans. Following a Commission order approving a final plan of disgorgement, as provided in Rule 1104 [17 C.F.R. § 201.1104] of the Commission's Rules Regarding Fair Fund and Disgorgement Plans, the Respondents shall require that the Independent Distribution Consultant, with the Respondents, take all necessary and appropriate steps to administer the final plan for distribution of disgorgement and penalty funds. Respondents shall pay all costs and expenses of the distribution, including but not limited to, the expenses of the Tax Administrator, and, if authorized by the Commission, the expenses of seeking a Private Letter Ruling from the Internal Revenue Service regarding various tax issues relating to the distribution of the funds.

e. The Respondents shall require the Independent Distribution Consultant to enter into an agreement that provides that for the period of the engagement and for a period of two years from completion of the engagement, the Independent Distribution Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with the Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Distribution Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Distribution Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission's Philadelphia District Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with the Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in

their capacity as such for the period of the engagement and for a period of two years after the engagement.

40. Certification. No later than twenty-four months after the date of entry of the Order, the chief executive officers of the Respondents shall certify to the Commission in writing that the Respondents have fully adopted and complied in all material respects with the undertakings set forth in paragraphs 37 through 39 above and with the recommendations of the Independent Compliance Consultant or, in the event of material non-adoption or non-compliance, shall describe such material non-adoption and non-compliance.

41. Recordkeeping. The Respondents shall preserve for a period not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any record of each of the Respondents' compliance with the undertakings set forth in paragraphs 37 through 39 above.

42. Deadlines. For good cause shown, the Commission's staff may extend any of the procedural dates set forth above.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Sections 15(b)(4) and 17A(c)(3) of the Exchange Act, Sections 203(e) and 203(k) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

- A. FIMC is hereby censured.
- B. FSC is hereby censured.
- C. FSSC is hereby censured.
- D. FIMC shall cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act and Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder.
- E. FSC shall cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act and Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder.
- F. FSSC shall cease and desist from committing or causing any violations and any future violations of Rule 22c-1(a) under the Investment Company Act.

- G. The Respondents shall comply with the undertakings enumerated in paragraphs 37 through 41 above.
- H. Disgorgement and Civil Money Penalties
1. FIMC, FSC and FSSC shall pay, jointly and severally, within 20 days of the entry of this Order, disgorgement in the total amount of \$27 million.
 2. FIMC, FSC and FSSC shall pay, jointly and severally, within 20 days of the entry of this Order, a civil money penalty in the amount of \$45 million.
 3. Payment of the disgorgement and civil penalty shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22132; and (D) submitted under cover letter that identifies FIMC, FSC, and FSSC as Respondents in these proceedings, the file number of these proceedings, a copy of which cover letter, money order or check shall be sent to Daniel M. Hawke, Associate District Administrator, Securities and Exchange Commission, 701 Market Street, Suite 2000, Philadelphia, PA 19106.
 4. The civil money penalty ordered in Paragraph IV.H.2. shall be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 ("Fair Fund distribution"). Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that they shall not, after offset or reduction in any Related Investor Action based on Respondents' payment of disgorgement in this action, argue that they are entitled to, nor shall they further benefit by offset or reduction of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

- I. Other Obligations and Requirements. Nothing in the Order shall relieve FIMC, FSC, FSSC or any Federated Fund of any other applicable legal obligation or requirement, including any rule adopted by the Commission subsequent to this Order.

By the Commission.

Jonathan G. Katz
Secretary