

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-61593; File No. SR-DTC-2009-17)

February 25, 2010

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Allow The Depository Trust Company to Provide Settlement Services to European Central Counterparty Limited for U.S. Securities Traded on European Trading Venues

I. Introduction

On December 17, 2009, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2009-17 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ The proposed rule change was published for comment in the Federal Register on January 5, 2010.² No comment letters were received on the proposal. This order approves the proposal.

II. Description

European Central Counterparty Limited (“EuroCCP”) is a clearing house recognized by the United Kingdom and regulated by the Financial Services Authority (“FSA”). It provides central counterparty clearance and settlement services to its participants for their securities transactions executed on or through European trading venues. Several of the trading platforms EuroCCP services asked EuroCCP to clear and settle trades in U.S. equities, Exchange Traded Funds (“ETFs”), and American Depositary Receipts (“ADRs”)(collectively, “U.S. Securities”) that are executed on or through them.³ Trades in these securities will be routed to EuroCCP through existing interfaces with the trading platforms and will be novated and netted in

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 61249 (December 29, 2009), 75 FR 0947.

³ The trading platforms will support trading activity of U.S. issues in U.S. dollars. The platforms currently operate from 8:00 a.m. to 4:30 p.m. London time.

accordance with EuroCCP's Rules and Procedures. DTC will notify Participants by Important Notice of the effective date of the service. EuroCCP will employ its current trade day netting methodology to produce each day for each of its participants in the EuroCCP U.S. Program a single settlement obligation for each U.S. Security.⁴

Under the EuroCCP U.S. Program, EuroCCP will use DTC's settlement services for these netted securities obligations by opening and operating an account at DTC. Each EuroCCP participant in the EuroCCP U.S. Program will be required to appoint a DTC participant U.S. settlement agent to settle obligations on its behalf.⁵ EuroCCP will be subject to the same net debit cap⁶ and collateral monitor ("Risk Management Controls")⁷ as any other DTC participant.

DTC is modifying its Settlement Service Guide in three ways to maximize settlement

⁴ Each single settlement obligation calculated by EuroCCP will settle at DTC on T+3.

⁵ EuroCCP will be given a reason code for the transactions it processes through its DTC account. As part of this filing, DTC proposes updating its Settlement Service Guide to reflect this reason code. In addition, DTC will update the language in the Memo Segregation section of the Settlement Service Guide and the reason codes that receive Memo Segregation treatment to reflect this reason code and to reflect certain other technical, non-substantive changes to the reason codes.

⁶ Before completing a transaction in which a participant is the receiver, DTC calculates the resulting effect the transaction would have on the participant's account to determine whether the resulting net settlement balance would exceed the participant's assigned net debit cap. Any transaction that would cause the participant's net settlement debit to exceed its net debit cap is placed in a pending queue that recycles until another transaction or payment creates credits in the participant's account such that the participant's net settlement debit is below its net debit cap.

⁷ DTC tracks collateral in a participant's account through its collateral monitor. At all times, the collateral monitor reflects the amount by which the collateral in the account exceeds the net debit in the account. When processing a transaction, DTC verifies that the deliverer's and receiver's collateral monitors will not become negative when the transaction completes. If the transaction would cause either party to have a negative collateral monitor, the transaction will recycle until the deficient account has sufficient collateral.

efficiencies for DTC participants acting as U.S. settlement agents in the EuroCCP U.S. Program. First, reclaims to EuroCCP's account will not be "matched". A reclaim is an instruction from a participant to DTC to return a delivery. It is generally used in the event of an error where a participant does not recognize the delivery. DTC's systems attempt to identify a corresponding original transaction for every reclaim presented for processing. If DTC's systems identify a corresponding original transaction, the reclaim is processed.⁸

Under DTC's existing Settlement Service Guide procedures, a matched reclaim for less than \$15 million is not subject to DTC's risk management controls. As a result a matched reclaim to EuroCCP for less than \$15 million would not be subject to DTC's risk management controls for EuroCCP's account and could create a debit in the EuroCCP account that could exceed EuroCCP's liquidity resources and cause EuroCCP to be unable to complete settlement with DTC. To avoid this outcome, DTC is changing its procedures so that all reclaims to the EuroCCP account, including matched reclaims under \$15 million, will be subject to DTC's risk management controls. Consequently, all reclaims violating EuroCCP's net debit cap or collateral monitor will recycle until the reclaim can settle without violating the risk management controls or until the reclaim drops at the recycle cutoff.⁹ This is how DTC currently treats reclaims that are over \$15 million dollars.

Second, DTC is modifying its Settlement Service Guide so that pending valued transactions and pending free transactions to or from the EuroCCP account will fail to settle or

⁸ The following seven elements must be consistent for the system to process a reclaim as matched: receiver, deliverer, CUSIP, quantity, dollar amount, shares, and settlement date.

⁹ If the reclaim drops at the recycle cutoff, then the receiving participant will retain the securities and the debit for the delivery it received from EuroCCP.

“drop”¹⁰ at 3:10 p.m.¹¹ This cutoff time will allow EuroCCP to close its business day.

Third, the Receiver Authorized Delivery (“RAD”) cutoff time will be 3:30 p.m. for both valued transactions and free delivery transactions.¹² DTC’s current RAD deadline for valued transactions is 3:30 p.m., and the RAD deadline for free delivery transactions is 6:30 p.m. To allow EuroCCP to halt transaction processing in the EuroCCP account and end its processing day, DTC will require a synchronized RAD cutoff time of 3:30 p.m.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act¹³ and the rules and regulations thereunder applicable to DTC. In particular, the Commission believes that the amendments DTC is making to its rules in connection to it providing settlement services to EuroCCP for U.S. Securities traded on European trading venues are consistent with DTC’s obligations under Section 17A(b)(3)(F),¹⁴ which requires, among other things, that the rules of a clearing agency are designed to provide for the safekeeping of securities and funds under its possession or control or for which it is responsible.

IV. Conclusion

¹⁰ Items that will drop will include deliveries to EuroCCP failing due to lack of position by the delivering participant and items failing DTC’s risk management controls.

¹¹ DTC’s current cutoff time for pending valued transactions is 3:10 p.m. and for pending free transactions is 6:35 p.m.

¹² RAD is a control mechanism which allows a participant to review transactions prior to completion of processing. It limits the exposure from misdirected or erroneously entered deliver orders, payment orders, and pledges.

¹³ 15 U.S.C. 78q-1.

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹⁵ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (File No. SR-DTC-2009-17) be, and hereby is, approved.¹⁷

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Florence E. Harmon
Deputy Secretary

¹⁵ 15 U.S.C. 78q-1.

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁸ 17 CFR 200.30-3(a)(12).