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January 25, 2011

Ms. Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE Washington, DC 20549-1090

Dear Ms. Murphy:

I write in response to the letters[1] (the "Letters") received by the Securities and Exchange Commission (the "Commission") regarding fees charged by The Depository Trust Company ("DTC") with respect to underwriting eligibility services, particularly as they relate to municipal bonds, and special request Security Position Reports ("SPRs").

On December 21, 2010, DTC filed a rule change on Form 19b-4 with the Commission to increase certain fees charged to Participants, including the fees for underwriting services. DTC filed the fee change pursuant to Section 19(b)(3)(A) of the Securities Exchange Act of 1934[2] and Rule 19b-4 thereunder. The fees became effective on January 3, 2011 (as requested by DTC in the filing) because the fees are charged to Participants, not to Issuers, and therefore the changes were effective upon filing.

The Issuers assert in the Letters that the increases in underwriting fees charged for municipal bonds are excessive, particularly for municipal issues that have multiple serial maturities, and exceed electronic delivery fees associated with a book-entry movement of position through DTC's settlement system. However, as detailed below, the fees associated with making a security eligible are in no way comparable to the book-entry movement of securities between Participants. The costs, including the manual work associated with making a security DTC eligible, far exceed the costs associated with a book entry movement of securities. Moreover, the volume of book-entry movements far exceed the volume of municipal issues made eligible at DTC in a given year.

[1] The Commission published notice of the Letters received from (i) Municipal Electronic Authority of Georgia ("MEAGPOWER") on December 28, 2010, (ii) New Hampshire Housing Financing Authority ("New Hampshire Housing") on December 28, 2010, (iii) ENI Finance and ENI Coordination Center ("ENI") on December 30, 2010, and (iv) Government Finance Officers Association ("GFOA") on January 3, 2011 ("GFOA" and together with MEAGPOWER, New Hampshire Housing and ENI, the "Issuers") on its website: http://sec.gov/comments/sr-dtc-2010-17/dtc201017.shtml.

[2] 15 U.S.C. § 78s (b)(3)(A), as amended.

In the Letters, the Issuers also complained about the fees charged by DTC for special request Security Position Reports (SPRs) and that they exceed "comparable" on-line data inquiry fees ("networking fees") charged to Participants. However, as discussed below, it is unreasonable to compare networking fees to the fees charged when a customer orders a SPR. Additionally, DTC charges the same SPR fee to any customer that orders a report, whether it is an Issuer or a Participant.

In sum, as detailed below, the Underwriting fee and the SPR fee are both reasonable.

I. Underwriting fees for municipal bonds

DTC requires that all issues undergo a thorough screening process in order to become eligible for DTC book-entry services. The process involves much more than simply adding the security to the DTC master file as the Issuers assert in their Letters. Due to the enhanced regulatory environment and increased market complexity, over the past few years the process associated with evaluating eligibility has become even more rigorous, especially as it relates to AML/OFAC screening and legal review of the eligibility of the securities for DTC services under the Securities Act of 1933, as amended. The 2011 price increase in underwriting eligibility fees is applicable across asset classes and does not target the municipal securities industry. As an at-cost-market-neutral organization, DTC's fees are assessed to recover costs associated with those services or securities. Subsequently, when volumes rise or costs decrease, DTC frequently lowers its fees. Between 2006 and 2008, DTCC has provided fee reductions to its customers of approximately $486 million. In 2008, DTC introduced new lower fees associated with the overhaul of the UW Source platform in anticipation of increased volumes and operational efficiencies which never materialized. The municipal issues incurred lower eligibility fees in 2008 as they migrated to the UW Source platform. The 2008 eligibility fees were based on the then-current market conditions and remained in effect as other asset classes migrated to UW Source, even in the event of experiencing significantly depressed transaction volumes.

Underwriting fees are differentiated by processing requirements associated with different types of securities that fit into two categories - basic and complex. Basic book-entry only ("BEO") issues include Common & Preferred Stock, Corporate Bonds, Municipal Bonds and Notes, and American Depositary Receipts. Complex BEO issues include Equity and Debt Derivatives, Closed End Funds, Limited Partnerships, Equity and Debt Unit Trusts, Collateral Mortgage Obligations and Asset-Backed Securities. Complex BEO issues incur higher eligibility fees than basic BEO issues because they require additional legal review due to their exemption status and/or additional operational review due to the complexity of the asset services required for the life of the transaction. All single CUSIP basic issues are charged the same fee and all multi-CUSIP basic issues (whether two CUSIPS or 100 and irrespective of value) are charged the same fee, whether corporate or municipal issues. DTC currently charges more for a multi-CUSIP basic issue than for a single CUSIP basic issue because multiple maturities require additional data validation and incur incremental technology processing costs to support that additional data.

The 2011 price increase in underwriting eligibility fees is a result of the underwriting product line operating at a negative margin since 2009, due to the decrease in new issuance volume and the increase in costs associated with creating and maintaining the UW Source platform. As noted above, the fees differentiate between "basic" and "complex" issues (the latter imposing more processing requirements at issuance), and between single maturity and multiple-maturity issues (since the latter involve more set-up costs). The fee is, however, charged once per issue and not per maturity (some of the issuers' letters clearly misstate this). In 2011, the base issue fee across all asset classes was increased to $350 (from $250 in 2010), and the fee for multiple maturities across all asset classes was increased to $500 (from $200 in 2010). Based on 2010 issuance activity, 88% of municipal issuers would be impacted by an annual total of $600 or less in 2011 as a result of the increased underwriting fees. DTC, of course, charges these fees to Participants underwriting the issue, not to the issuer itself.

Underwriting distributions have declined over the past few years. Concurrently, DTCC completed the overhaul of the underwriting system to introduce greater automation and support processing of far more complex instruments. As a part of this renovation, and to assist the industry in complying with the Municipal Securities Rulemaking Board's ("MSRB's") rule on trade information dissemination, DTC included in the underwriting system a New Issue Dissemination System (NIIDS) to provide for rapid dissemination of descriptive information on new municipal issues. This expanded the data set originally captured on municipal issues tenfold (increasing the systems resources required for the system) and required additional operational resources to validate the accuracy of information provided by the underwriters. Additionally, the environment associated with web based applications has significantly changed in the last few years and engenders increased costs associated with security and the maintenance of the infrastructure.

The 2011 increase in Participant Underwriting fees across all asset classes represents a realignment with the overall costs associated with providing the eligibility service and has been scaled to reflect appropriate risk mitigation and processing complexity costs. As noted, we believe that one of the causes of the issuers' complaints was their misunderstanding of how the fees applied to multiple-maturity issuances. We also wonder whether these issuers bothered to calculate how the fee changes would impact them. Again, we note that 88% of all municipal issuers would pay no more than $600 annually as a result of the fee change. The analogy to the book-entry delivery fee is completely inaccurate, since new issues requires extensive set-up work to capture the details of the issue in DTC's master files and, as noted, involve the dissemination of descriptive information to vendors and the industry more broadly.

II. Security Position Reports

The SPR service enables an issuer, trustee and/or authorized third party to request a security position listing ("SPL") reflecting each Participant's closing position in DTC for a specific issue on a subscription basis (i.e. weekly, monthly or dividend record date subscription) or as needed (i.e. special requests). SPRs are reports produced by DTC that provide information on the record date holdings of an issuer's security in DTC Participant accounts and may be requested by and provided to an issuer, trustee, or authorized third party agent so that they may obtain information needed to contact shareholders on corporate-related events such as annual meetings. With respect to special request SPRs, the entities requesting these reports tend to be corporate issuers seeking holder information with respect to their equity securities. Reports may be requested for a variety of reasons (e.g., an issuer fighting a hostile takeover, or an issuer needing to send a special notice to its holder base). An estimated 2,500 to 3,000 special request SPRs are ordered each month (estimated 36,000 per year); volumes have been trending somewhat lower in the past two years.

The fee for a special request SPR is $120 per request and has not increased since May 2006[3]. Special request SPRs demands more resources to produce than subscription reports. Each time a customer orders a special request SPR, DTC must validate that the customer is authorized to receive the report for the specified CUSIP. When a customer orders a SPR on a subscription basis, DTC is able to validate that customer's authority once when the customer sets up its request. Special request SPRs are unscheduled and are generally ordered during peak processing times. In order to produce and support the report on demand, DTC must make necessary production system and operational resources available at the highest peak time billing rates. For historical queries, special request SPRs typically require additional research, manual processing and access to older, archived data.

DTC's overall pricing philosophy is to align its service fees with underlying costs. The fees charged by DTC with respect to its systems, products and services are generally in direct correlation to the associated cost in creating and maintaining them. The total costs are determined by DTC as part of its design and maintenance process. Costs are then recovered through the fees charged by DTC to each entity based upon its respective utilization of the products and services. Over the years, the SPR program has grown in complexity and the resources necessary for the ongoing maintenance, review and, modification of the program have only increased. DTC is under the legal obligation to furnish a SPL to each issuer whose securities are held in DTC's and/or registered in DTC's nominee name[4]. DTC is entitled to charge each issuer requesting a SPL a fee designed to recover the reasonable costs associated with providing this service[5]. During the last few years, DTC has spent over $1.2 million for the ongoing maintenance of the SPR service, including implementing updates to the infrastructure and functionality of the

[3] While the Issuers complain of a "refresh" charge associated with ordering a SPR, the charge for a special request SPR is $120 per report; there is no such "refresh" function or charge.
[4] 17 CFR § 240.17Ad-8. (1984).
[5] Id.

system in response to regulatory requests. The special request SPR fee has not increased since 2006, even as SPR volumes have steadily declined.

Some of the letters complain that the fee seems excessive in relation to certain legacy fees previously charged to Participants for on-line inquiries (such as viewing a rate on a dividend payment) using DTC's Participant Terminal System ("PTS")[6]. There is no comparison between the two types of services, since on-line inquiries are real-time lookups and use minimal resources. Unlike a typical PTS on-line inquiry of real-time data, SPRs are positions for the requested report date(s). As such, SPRs require creation of the report for the date range specified, storage of the data, retrieval of data for the customer and cleanup of the data upon expiration. A typical on-line inquiry requires development and maintenance of one database (to store the original data), one application programming interface (to retrieve the data) and one screen handler (to display the data). The SPR service requires two databases (to store the original data and report the data), one application programming interface, four screen handlers (web pages) and ten mainframe job streams to create the report, populate and cleanup the data. Furthermore, SPR has nine report types and two reporting mediums for the web (Browser and Spreadsheet). Each SPR type has its own business requirements regarding data source, reporting date and interval, position editing, supplemental data and report format.

Providing an on-demand web service to an extensive and technologically diverse Non-Participant customer base requires significant system development and support resources. As DTC develops and implements upgraded information security measures and other infrastructure enhancements to protect the confidentiality of the data it provides and adhere to regulatory concerns, it incurs and must recover the costs of supporting those changes and servicing these customers. With the on-demand, as needed nature of the special request SPR service and the significantly higher number of firms who register and only infrequently utilize special request SPRs, DTC expends more resources supporting this service. Subscription users are a more concentrated segment, utilizing the web service on a pre-defined basis, and as such require significantly less support resources (such as password resets, web feature explanations, and billing services).

DTC has a history of partnering with the industry to create workable solutions to their business needs. For example, with respect to the SPR service, DTC recognized that a significant number of authorized users of the service also performed regulatory reporting functions for which they required access to credited participant information, but did not need to be provided with the corresponding quantity of securities credited to each Participant. At that time, such users would be required to order a special request SPR from DTC at a fee of $120 per CUSIP. Upon determining that there was a sufficient business need to justify changes and in order to mitigate user expenses, in 2006 DTC filed with the Commission a proposed rule change[7] to offer, as a subset to its SPR service, a new Security Holder Report ("SHR") Service. Under the new service, authorized users (generally, trustees of issuers of asset-backed securities who are authorized to receive

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[6] One letter also complained about an excessive charge to a particular issuer for special-request SPRs; we could find no record of the requests or the charges the letter cited.

[7] *See* SEC Release No. 35-55058; File No. SR-DTC-2006-17, 72 FR 1793 (January 16, 2007).

SPRs) could obtain SHR reports, which reflected credited participant information without the inclusion of related security position information. This resulted in lower production costs to DTC, greater protection of confidential participant information, and permitted a lower fee to be charged for SHR reports than for standard SPR reports ($55.00 per CUSIP for the first 500 CUSIPS, and $6.00 per each additional CUSIP that is part of the same order).

To consider changes to the SPR Program, DTC must be able to establish that a sufficient business case exists that supports the expenses that would be incurred as a result of effecting changes to its services. When there has been an established industry need, DTC has responded by exploring the possibility of creating new products and reducing fees as appropriate and DTC will continue to do so in the future. DTC has evaluated the Special Request SPR fee and maintains that the fee is appropriate in light of the costs of maintaining the service. DTC regularly and periodically evaluates its services and products so that service fees continue to be aligned with underlying costs. Should there be a demonstrable need for a daily subscription service, DTC will explore whether that is feasible. Having one or two users that are interested in a daily subscription service certainly does not justify even exploring the development of a new subscription service.

Please feel free to contact me if you have any questions.

Sincerely,

The Depository Trust Company

By: ________________________

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