

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69556; File No. SR-DTC-2013-802)

May 10, 2013

Self-Regulatory Organizations; The Depository Trusts Company; Notice of Filing and No  
Objection to Advance Notice to Renew Its Existing Credit Facility

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled the Payment, Clearing, and Settlement Supervision Act of 2010<sup>1</sup> (“Clearing Supervision Act”) and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934,<sup>2</sup> notice is hereby given that on April 22, 2013, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) advance notice SR-DTC-2013-802 (“Advance Notice”) as described in Items I, II and III below, which Items have been prepared primarily by DTC. This publication serves as solicitation of comments on the Advance Notice from interested persons and as notice of no objection to the Advance Notice.

I. Clearing Agency’s Statement of the Terms of Substance for the Advance Notice

DTC is renewing its 364-day syndicated, revolving credit facility (“Renewal”), as described in additional detail below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the Advance Notice and discussed any comments it received on the Advance Notice. The text of these statements may be examined at the places specified in Item IV below. DTC has

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<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

prepared summaries, set forth in sections A and B below, of the most significant aspects of such statements.<sup>3</sup>

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

Description of Change

As part of its liquidity risk management regime, DTC maintains a \$1.9 billion, 364-day committed, revolving line of credit with a syndicate of commercial lenders ("Credit Facility"), which is renewed every year. The terms and conditions of the Renewal are specified in the Twelfth Amended and Restated Revolving Credit Agreement to be dated as of May 14, 2013, among DTC, National Securities Clearing Corporation ("NSCC"),<sup>4</sup> the lenders party thereto, and JPMorgan Chase Bank, N.A. as the administrative agent, and are substantially the same as the terms and conditions of the existing Credit Facility agreement dated as of May 15, 2012 among the same parties. Although the aggregate commitments being sought under the Renewal increased to \$16 billion, the commitments to DTC as a borrower will remain at \$1.9 billion as provided in the existing Credit Facility agreement. As of April 19, 2013, NSCC and DTC had received aggregate commitments of \$10.121 billion towards the Renewal.

This agreement and its substantially similar predecessor agreements have been in place since the introduction of same-day funds settlement at DTC because DTC requires same-day liquidity resources to cover the failure-to-settle of its largest Participant or affiliated family of Participants. If a Participant fails to satisfy its end-of-day net settlement obligation, DTC may

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<sup>3</sup> The Commission has modified the text of the summaries prepared by DTC.

<sup>4</sup> The Credit Facility provides for both DTC and NSCC as borrowers, with an aggregate commitment of \$1.9 billion for DTC and the amount of any excess aggregate commitment for NSCC. The borrowers are not jointly and severally liable and each lender has a ratable commitment to each borrower. DTC and NSCC have separate collateral to secure their separate borrowings.

borrow under the Credit Facility to enable it, if necessary, to fund settlement among non-defaulting Participants. Any borrowing would be secured principally by securities that were intended to be delivered to the defaulting Participant upon payment of its net settlement obligation and securities previously designated by the defaulting Participant as collateral, as well as the portion of the Participant's deposit to the Participants Fund held as DTC Series A Preferred Stock.<sup>5</sup> The Credit Facility is built into DTC's primary risk management controls (i.e., the net debit cap and collateral monitor), which require that the end-of-day net funds settlement obligation of a Participant is fully collateralized and cannot exceed DTC's liquidity resources.

*Anticipated Effect on and Management of Risk*

DTC believes that the Credit Facility is a cornerstone of DTC risk management and its renewal is critical to the DTC risk management infrastructure. The Renewal does not otherwise affect or alter the management of risk at DTC.

(B) Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants, or Others

No written comments were solicited or received with respect to the Advance Notice.

III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The clearing agency may implement the proposed change pursuant to Section 806(e)(1)(G) of the Clearing Supervision Act if it has not received an objection to the proposed change within 60 days of the later of (i) the date that the Commission received the advance

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<sup>5</sup> DTC maintains a Participants Fund to which each Participant is required to make a cash deposit, based on its historic settlement activity, which is partially allocated to an investment in shares of DTC Series A Preferred Stock up to 25% of the Participant's required cash amount. The cash portion of the Participants Fund additionally provides a liquidity resource for settlement and, to the extent invested in securities, repurchase agreements or deposits may be pledged to support a borrowing. See DTC's Rules, By-laws, Organization Certificate, Rules 4 and 4(A) ([http://dtcc.com/legal/rules\\_proc/dtc\\_rules.pdf](http://dtcc.com/legal/rules_proc/dtc_rules.pdf)).

notice or (ii) the date the Commission receives any further information it requested for consideration of the notice.<sup>6</sup> The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.<sup>7</sup>

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension.<sup>8</sup> A proposed change may be implemented in less than 60 days from the date of receipt of the advance notice, or the date the Commission receives any further information it requested, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.<sup>9</sup> The clearing agency shall post notice on its website of proposed changes that are implemented.<sup>10</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the advance notice is consistent with the Clearing Supervision Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

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<sup>6</sup> 12 U.S.C. 5465(e)(1)(G).

<sup>7</sup> 12 U.S.C. 5465(e)(1)(F).

<sup>8</sup> 12 U.S.C. 5465(e)(1)(H).

<sup>9</sup> 12 U.S.C. 5465(e)(1)(I).

<sup>10</sup> 17 CFR 240.19b-4(n)(4)(i).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-DTC-2013-802 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-DTC-2013-802. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the advance notice that are filed with the Commission, and all written communications relating to the advance notice between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings also will be available for inspection and copying at the principal office of DTC and on DTC's website at [http://dtcc.com/downloads/legal/rule\\_filings/2013/dtc/SR-DTC-2013-802.pdf](http://dtcc.com/downloads/legal/rule_filings/2013/dtc/SR-DTC-2013-802.pdf).

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-DTC-2013-802 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Commission Findings and Notice of No Objection

Although Title VIII does not specify a standard of review for advance notices, the Commission believes that the stated purpose of Title VIII is instructive.<sup>11</sup> The stated purpose of Title VIII is to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically-important financial market utilities (“FMU”)<sup>12</sup> and providing an enhanced role for the Board of Governors of the Federal Reserve System (“Board of Governors”) in the supervision of risk management standards for systemically-important FMUs.<sup>13</sup>

Section 805(a)(2) of the Clearing Supervision Act authorizes the Commission to prescribe risk management standards for the payment, clearing, and settlement activities of designated clearing entities and financial institutions engaged in designated activities for which it is the supervisory agency or the appropriate financial regulator.<sup>14</sup> Section 805(b) of the Clearing Supervision Act states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to:

- promote robust risk management;
- promote safety and soundness;
- reduce systemic risks; and

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<sup>11</sup> 12 U.S.C. 5461(b).

<sup>12</sup> DTC was designated as a systemically important FMU by the Financial Stability Oversight Council (“FSOC”) on July 18, 2012. FSOC 2012 Annual Report, Appendix A, <http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf>.

<sup>13</sup> 12 U.S.C. 5461(b).

<sup>14</sup> 12 U.S.C. 5464(a)(2).

- support the stability of the broader financial system.<sup>15</sup>

The Commission adopted risk management standards under Section 805(a)(2) of the Clearing Supervision Act on October 22, 2012 (“Clearing Agency Standards”).<sup>16</sup> The Clearing Agency Standards became effective on January 2, 2013 and require registered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.<sup>17</sup> As such, it is appropriate for the Commission to review advance notices against the objectives and principles for risk management standards as described in Section 805(b), as well as the applicable Clearing Agency Standards promulgated under Section 805(a).

The Advance Notice is a proposal to enter into a renewed Credit Facility, as described above, which is designed to help mitigate the risk that DTC would be under collateralized in the event that a Participant would fail to satisfy its end-of-day net settlement obligation. Consistent with Section 805(b) of the Clearing Supervision Act,<sup>18</sup> the Commission believes the proposal promotes robust risk management, as well as the safety and soundness of DTC’s operations, while reducing systemic risks and supporting the stability of the broader financial system, by

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<sup>15</sup> 12 U.S.C. 5464(b).

<sup>16</sup> Release No. 34-68080 (Oct. 22, 2012), 77 FR 66219 (Nov. 2, 2012).

<sup>17</sup> The Clearing Agency Standards are substantially similar to the risk management standards established by the Board of Governors governing the operations of designated FMUs that are not clearing entities and financial institutions engaged in designated activities for which the Commission or the Commodity Futures Trading Commission is the Supervisory Agency. See Financial Market Utilities, 77 FR 45907 (Aug. 2, 2012).

<sup>18</sup> See 12 U.S.C. 5464(b).

maintaining a cornerstone to DTC’s risk management system in a Credit Facility, in preparation for a possible failure-to-settle by a Participant.

Additionally, Commission Rule 17Ad-22(d)(11) regarding default procedures,<sup>19</sup> adopted as part of the Clearing Agency Standards,<sup>20</sup> requires that registered clearing agencies “establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable ...establish default procedures that ensure that the clearing agency can take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default.”<sup>21</sup> Here, as described above, the renewed Credit Facility should help DTC continue to meet its respective obligations in a timely fashion, in the event that a Participant fails-to-settle, thereby helping to contain losses and liquidity pressures from that failure.

As described in Item III above, Section 806(e)(1)(G) of the Clearing Supervision Act provides that a designated FMU may implement a change contained in an advance notice if it has not received an objection to the proposed change within the applicable 60 day period.<sup>22</sup> However, Section 806(e)(1)(I) allows the Commission to issue a non-objection prior to the 60th day.<sup>23</sup> If the Commission chooses to issue a non-objection prior to the 60th day, it must notify the designated FMU in writing that it does not object and authorize implementation of the

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<sup>19</sup> 17 CFR 240.17Ad-22(d)(11).

<sup>20</sup> Release No. 34-68080 (Oct. 22, 2012), 77 FR 66219 (Nov. 2, 2012).

<sup>21</sup> 17 CFR 240.17Ad-22(d)(11).

<sup>22</sup> See 12 U.S.C. 5465(e)(1)(G).

<sup>23</sup> 12 U.S.C. 5465(e)(1)(I).

change on an earlier date.<sup>24</sup> If the Commission chooses to object prior to the 60th day, it must similarly notify the designated FMU.<sup>25</sup>

In its filing with the Commission, DTC requested that the Commission notify DTC, under Section 806(e)(1)(I) of the Clearing Supervision Act, that the Commission has no objection to the Advance Notice no later than Friday, May 10, 2013, two business days before the existing Credit Facility is set to expire on Tuesday, May 14, 2013, to ensure that there is no period of time that DTC operates without the Credit Facility.

For the reasons stated above, the Commission does not object to the Advance Notice.

VI. Conclusion

IT IS THEREFORE NOTICED, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,<sup>26</sup> that the Commission DOES NOT OBJECT to the change described in advance notice SR-DTC-2013-802 and that DTC be and hereby is AUTHORIZED to implement the change as of the date of this notice.

By the Commission.

Kevin M. O'Neill  
Deputy Secretary

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<sup>24</sup>

Id.

<sup>25</sup>

12. U.S.C. 5465(e)(1)(E).

<sup>26</sup>

12 U.S.C. 5465(e)(1)(I).