

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71499; File No. SR-DTC-2014-01)

February 6, 2014

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order of Accelerated Approval of Proposed Rule Change to Amend The Depository Trust Company Settlement Service Guide to Lower the Amount of the Maximum Net Debit Cap for an Affiliated Family of Participants and Make Other Related Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 24, 2014, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I and II below, which Items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and, by this Order, approve the proposed rule change on an accelerated basis.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of modifications to the DTC Settlement Service guide (the “Service Guide”) to: (i) lower the amount of the maximum Net Debit Cap for an affiliated family of Participants, and (ii) make other changes to the Service Guide, as more fully described below.<sup>3</sup>

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Terms not defined herein have the meaning set forth in DTC’s Rules & Procedures (the “Rules”). Please note that DTC’s Procedures include its service guides, including but not limited to the Settlement Service guide.

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the proposed rule change, and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item III below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Introduction

By this filing, DTC seeks to amend the Service Guide to: (i) lower the amount of the maximum Net Debit Cap<sup>4</sup> for an affiliated family of Participants (“Affiliated Family”),<sup>5</sup> and (ii) make other changes to the Service Guide as more fully described below.

Background

The Net Debit Cap is a risk management control under the Rules to limit the net debit balance of any Participant and of any Affiliated Family to no more than the amount of liquidity resources available to DTC to complete system-wide settlement in the event of a failure to settle by the largest Participant or Affiliated Family. Liquidity resources for DTC include cash

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<sup>4</sup> Pursuant to Rule 1 the term: (a) “Net Debit Cap” of a Participant means an amount determined by the Corporation in the manner specified in the Procedures; provided, however, that the maximum Net Debit Cap of the Participant shall be the least of: (i) a maximum amount applicable to all Participants based on the liquidity resources of the Corporation, (ii) the Settling Bank Net Debit Cap applicable to such Participant or (iii) any other amount determined by the Corporation, in its sole discretion.

<sup>5</sup> Pursuant to Rule 1 the term “Affiliated Family” means each Participant that controls or is controlled by another Participant and each Participant that is under the common control of any Person. For purposes of this definition, “control” means the direct or indirect ownership of more than 50% of the voting securities or other voting interests of any Person.

deposits to the Participants Fund and a committed line of credit with a syndicate of commercial lenders.

Pursuant to the Rules each Participant must: (i) make a Required Participants Fund Deposit in cash and (ii) purchase an amount of DTC Series A Preferred Stock (“DTC Preferred Stock”) (the “Required Preferred Stock Investment”).<sup>6</sup> The aggregate of these amounts across all Participants is currently (i) \$1.15 billion and (ii) \$150 million, respectively, equal to an aggregate funded amount of \$1.3 billion.<sup>7</sup> This amount, plus a committed line of credit of \$1.9 billion,<sup>8</sup> provides DTC with \$3.2 billion in liquidity resources. In accordance with the Rules, the maximum Net Debit Cap of any Participant and its Affiliated Family may not exceed this total amount of liquidity. The Net Debit Cap of each Participant is set at or below the maximum based on historic activity of the Participant; the aggregate amount of the Net Debit Caps of Participants in an Affiliated Family (the “Aggregate Affiliated Family Net Debit Cap”)<sup>9</sup> is likewise limited by the amount of these liquidity resources. The maximum Net Debit Cap currently allowed by DTC for an individual Participant is \$1.8 billion and the maximum

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<sup>6</sup> See DTC Rule 4, Section 2 *et seq.*

<sup>7</sup> Securities Exchange Act Release Nos. 41529 (Jun. 15, 1999), 64 FR 33333 (Jun. 22, 1999) (SR-DTC-1999-08); 43197 (Aug. 23, 2000), 65 FR 52459 (Aug. 29, 2000) (SR-DTC-2000-02); 54775 (Nov. 17, 2006), 71 FR 68662 (Nov. 27, 2006) (SR-DTC-2006-14); 59612 (Mar. 20, 2009), 74 FR 13488 (Mar. 27, 2009) (SR-DTC-2009-06); and 62567 (Dec. 16, 2010), 75 FR 80878 (Dec. 23, 2010) (SR-DTC-2010-14).

<sup>8</sup> Securities Exchange Act Release No. 69556 (May 10, 2013), 78 FR 28933 (May 16, 2013) (SR-DTC-2013-802).

<sup>9</sup> Pursuant to Rule 1, the term “Aggregate Affiliated Family Net Debit Cap” means the sum of the Net Debit Caps for the Participants that are part of an Affiliated Family in the manner specified in the Procedures; provided, however, that the maximum Aggregate Affiliated Family Net Debit Cap shall not exceed the total available liquidity resources of the Corporation.

Aggregate Affiliated Family Net Debit Cap is \$3.0 billion.<sup>10</sup>

*Proposed Rule Changes*

For purposes of calculating liquidity resources to set the maximum Aggregate Affiliated Family Net Debit Cap, DTC has previously included the aggregate amount paid by Participants for the purchase of the DTC Preferred Stock (\$150 million). (The DTC Preferred Stock itself constitutes capital of DTC.) Under the proposed change, DTC will no longer count the \$150 million amount as a liquidity resource; it will account for this amount as capital, available for general business purposes. The maximum Aggregate Affiliated Family Net Debit Cap must therefore be reduced by \$150 million, to reflect reduced cash liquidity resources available for settlement. Accordingly, the maximum Aggregate Affiliated Family Net Debit Cap of \$3.0 billion will be reduced to \$2.85 billion. In addition, for purposes of calculating Participants Fund deposits, \$150 million will be subtracted from the base amount of the Participants Fund, currently \$600 million which will, accordingly, be set at \$450 million.

DTC proposes to revise the Service Guide to adjust references to the Aggregate Affiliated Family Net Debit Cap amount and reflect related changes to calculations of the Participants Fund.

In addition, the Service Guide contains a sample calculation of a Required Participants Fund Deposit which is no longer accurate. Rather than continue to provide an example which might require updates, DTC proposes to delete the example and, instead, set forth in the Service Guide the principles underlying the calculation of the Required Participants Fund Deposit and

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<sup>10</sup> DTC maintains the maximum Aggregate Affiliated Family Net Debit Cap below its available liquidity resources to adjust for the possibility that a Participant that is part of an Affiliated Family and fails to meet its end-of-day settlement obligation may also be (or be affiliated with) a lender under the line of credit.

Required Preferred Stock Investment.<sup>11</sup>

DTC will also take this opportunity to: (i) clarify procedures for payment of Required Participants Fund Deposits and the purchase of a Participant's Required Preferred Stock Investment, and (ii) make other clarifying technical changes to the Service Guide.

### Implementation Timeframe

The effective date of the proposed Rule change will be announced via a DTC Important Notice.

## 2. Statutory Basis

By reducing the maximum Aggregate Affiliated Family Net Debit Cap, as described above, the proposed rule change will support the maintenance of adequate DTC liquidity resources available to complete system-wide settlement in the event of a failure to settle by the largest Participant or Affiliated Family. Therefore, DTC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC, in particular Section 17A(b)(3)(F)<sup>12</sup> of the Act which requires that DTC's Rules be

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<sup>11</sup> The Required Participants Fund Deposit is calculated by a formula using the concepts of: (i) a "base" amount, allocated among all Participants (based upon a sixty business-day rolling average of each Participant's intra-day net debit peaks), and (ii) an additional amount, allocated among the Affiliated Families that present the greatest liquidity risk to DTC. Calculation of the Required Preferred Stock Investment uses the methodology referred to in clause (i) of the preceding sentence, i.e., the same calculation as for the base amount of the Participants Fund. The current example in the Service Guide presents a Participants Fund (and DTC Preferred Stock) calculation including the base amount and the additional amount. The total base amount allocated among all Participants is shown in the example as \$600 million, representing \$450 million in cash deposits and \$150 million in proceeds of the Required Preferred Stock Investments. Because funds invested in the DTC Preferred Stock will not be counted as a liquidity resource, the calculation of a Participants Required Deposit to the Participants Fund and Required Preferred Stock Investment will be described separately in the Service Guide, so the Required Preferred Stock Investment calculation will be removed from the Participants Fund section.

<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC does not believe that the proposed Rule change will have any impact, or impose any burden, on competition, as DTC expects the proposed reduction of the maximum Aggregate Affiliated Family Net Debit Cap from \$3.0 billion to \$2.85 billion to have minimal impact on the ability of any affected Participant to settle securities transactions through DTC.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not yet been solicited or received with respect to this filing.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the 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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-DTC-2014-01 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-2014-01. 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 proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change 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/legal/sec-rule-filings.aspx>. 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-2014-01 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

Section 19(b)(2)(C)(i) of the Act<sup>13</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Here, the Commission finds that the proposed rule change is consistent with the

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<sup>13</sup> 15 U.S.C. 78s(b)(2)(C)(i).

requirements of the Act, in particular the requirements of Section 17A of the Act,<sup>14</sup> and the rules and regulations thereunder applicable to DTC. Specifically, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>15</sup> which requires, among other things, that the rules of a registered clearing agency “are designed to promote the prompt and accurate clearance and settlement of securities transactions..., to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.”<sup>16</sup>

As described above, DTC intends to no longer account for the \$150 million paid by Participants for their Required Preferred Stock Investment as a liquidity resource, but as business capital only. Consequently, DTC is proposing this rule change in order to lower its Net Debit Cap for Aggregate Affiliated Families by the same amount so that the Aggregated Affiliated Family Net Debt Cap, and thus DTC’s liquidity exposure in the event of an Affiliated Family default, does not exceed the actual amount of liquidity resources available to DTC. As such, the Commission finds this proposed rule change consistent with Section 17A(b)(3)(F) of the Act.<sup>17</sup>

Section 19(b)(2)(C)(iii) of the Act<sup>18</sup> allows the Commission to approve a proposed rule change earlier than 30 days after the date of publication of the notice of the proposed rule change in the Federal Register where the Commission finds good cause for doing so and publishes its

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<sup>14</sup> 15 U.S.C. 78q-1. In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>15</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>16</sup> Id.

<sup>17</sup> Id.

<sup>18</sup> 15 U.S.C. 78s(b)(2)(C)(iii).



reason. Here, as discussed above, DTC has more precisely allocated the \$150 million in proceeds from the sale of its preferred stock solely for business capital purposes rather than for both business capital purposes and as a liquidity resource. Given that the financial stability of DTC and the safeguarding of securities in its custody or control or for which it is responsible is in the public interest, the Commission finds good cause for the accelerated approval of this proposed rule change under Section 19(b)(2)(C)(iii) of the Act<sup>19</sup> so that DTC can implement the proposed change to reflect DTC's reallocation of such proceeds, thus realigning the liquidity exposure presented to DTC by the failure of an Affiliated Family to meet its settlement obligations with the actual amount of liquidity resources available to DTC. If DTC were not able to make this proposed change immediately, the potential exists for DTC's liquidity exposure to exceed its liquidity resources, which could undermine the stability of DTC and the safety of the securities it maintains.

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Id.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>20</sup> that the proposed rule change (SR-DTC-2014-01) be, and it hereby is, APPROVED on an accelerated basis. For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>20</sup> 15 U.S.C. 78s(b)(2).

<sup>21</sup> 17 CFR 200.30-3(a)(12).