SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54701; File No. SR-DTC-2006-11)

November 3, 2006

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Allow the Inventory Management System to Accept Real-Time and Late Affirmed Trades from Omgeo

I.   Introduction

On July 11, 2006, The Depository Trust Company ("DTC") filed with the Securities and

Exchange Commission ("Commission") and on September 20, 2006, amended proposed rule

change SR-DTC-2006-11 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act").[1] Notice of the proposal was published in the Federal Register on October 3, 2006.[2]

The Commission received no comment letters in response to the proposed rule change. For the

reasons discussed below, the Commission is approving the proposed rule change.

II.   Description

DTC seeks to expand its Inventory Management System ("IMS") to accept in real-time

non-Continuous Net Settlement ("non-CNS") institutional trades from Omgeo LLC ("Omgeo")

and to accept late affirmed trades into IMS for automated settlement at DTC.

1.   Current Process for IMS

Omgeo's TradeSuite system currently feeds DTC a batch file of approximately 320,000

eligible affirmed institutional trades at approximately 1:00 p.m. on T+2. Delivering DTC

participants then authorize or exempt these trades in IMS for automated settlement to be

attempted at DTC. Any trades affirmed after 12:00 p.m. on T+2 are ineligible for automated

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[1]   15 U.S.C. 78s(b)(1).

[2]   Securities Exchange Act Release No. 54521 (September 27, 2006), 71 FR 58457.

settlement at DTC via the TradeSuite interface. These late affirmed trades are typically settled by the broker-dealer or custodian by processing a DTC Delivery Order ("DO"). These DOs experience a higher reclaim rate than deliveries of eligible affirmed trades.

2.   Proposed Changes

DTC proposed to enhance its interface with Omgeo to accept eligible affirmed non-CNS trades from Omgeo's TradeSuite system in real-time. Although DTC will receive affirmed trades from Omgeo's TradeSuite system in real-time as they are affirmed, participants will still have the ability to process authorizations and exemptions as they do today.

Participants will be able to authorize trades as they are received into IMS through the existing options (i.e., globally or on a trade-for-trade basis). Omgeo will continue to produce the Cumulative Eligible Trade report/file at approximately 1:00 p.m. on T+2. This batch report/file notifies participants of affirmed Matched Institutional Trades ("MITS") sent to IMS for the following settlement date. However, IMS will continue the current practice of applying a participant's authorization profile for MITS after the midday cut-off on T+2 (at approximately 1:00 p.m.).

In addition, some new functionality is also being introduced through the enhanced Omgeo and DTC interface. Omgeo will send "late affirmed"[3] trades to IMS. Late affirmed trades will be stored and identified in IMS as a new transaction type, Late Matched Institutional Trades ("LMIT"). These trades are currently ineligible for automated settlement at DTC. This new functionality will allow participants to eliminate settling these transactions as DOs at DTC,

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[3]   Late affirmed trades are defined as trades affirmed after the 12:00 p.m. cutoff on T+2 until 12:00 p.m. on settlement date.

which experience a higher reclaim rate than affirmed eligible trades, and will provide for the automated settlement of these transactions.

For the new LMITs, IMS will default to the "active" authorization mode (i.e., deliveries would not be processed unless they are authorized). Unauthorized "late affirmed" trades will remain in IMS until settlement date + 21 days (the current IMS trade retention time frame). For authorized LMIT items, IMS will apply a participant's authorization profile as the items are received from Omgeo. LMITs will bypass DTC's Receiver Authorized Delivery ("RAD") processing as do all Omgeo deliveries.

Omgeo will continue to update IMS and notify DTC participants using a status message of any Change of Eligibility ("COE").[4] COE (i.e., DTC-eligible to DTC-ineligible) messages will be passed to IMS by TradeSuite up until midnight of T+1. IMS will process COE-related messages on a real-time basis for both authorized and yet to be authorized trades. IMS will "reauthorize" a previously authorized DTC-eligible trade in the event the trade becomes DTC-

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[4] COE-related messages can be sent for the following reasons:

(1) When a DTC eligible trade changes to CNS eligible, the trade is resent to IMS by Omgeo with an indicator that it is now ineligible (IMS status becomes ineligible). Omgeo will then send the trade to NSCC for settlement in CNS. A trade can become CNS eligible after being DTC eligible, if the security, ID agent (a prime broker), clearing agent, and clearing broker all are CNS eligible.

(2) When a DTC eligible trade subsequently becomes ineligible for settling at DTC, the trade is resent to IMS by Omgeo with an indicator that it is now Ineligible (IMS status updated to ineligible). A trade may become ineligible for DTC settlement processing if prior to settlement date, the participant, security, or ID agent become ineligible for DTC processing.

(3) If a previously sent DTC eligible trade changed to ineligible becomes eligible for settling at DTC, again, the trade is re-sent to IMS by Omgeo with an indicator that it is now eligible (IMS status is updated to eligible from ineligible).

eligible, again. In addition, an appropriate audit trail will be provided by IMS for participants. Ineligible MITS transactions in IMS will be cancelled at end of day on settlement date.

DTC will charge the following delivery fees for LMITs:

- $0.17 (current "night DO" fee) if authorized by the participant before the night cycle.

- $0.45 (current "day DO" fee) if authorized by the participant after the night cycle.

- $0.006 per delivery (current IMS delivery fee) for every trade that is processed through the IMS authorization profile.

Participants that currently submit machine-readable authorization/exemption instructions can choose to continue to process their Omgeo deliveries as they do today. The proposed change is scheduled to be implemented in November 2006.

III. Discussion

Section 19(b) of the Act 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. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.[5] The Commission finds that DTC's proposed rule change is consistent with this requirement because it should promote the prompt and accurate clearance and settlement of securities transactions by enhancing the IMS interface with Omgeo to accept eligible affirmed trades from Omgeo's TradeSuite system in real-time and to accept late affirmed trades into IMS for automated

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[5] 15 U.S.C. 78q-1(b)(3)(F).

settlement at DTC. In addition, the proposed rule change should provide for the equitable

allocation of reasonable dues, fees, and other charges among DTC's members as required by

Section 17A(b)(3)(D).[6]

IV.   Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is

consistent with the requirements of the Act and in particular Section 17A of the Act and the rules

and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the

proposed rule change (File No. SR-DTC-2006-11) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated

authority.[7]

Nancy M. Morris
Secretary

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[6]   15 U.S.C. 78q-1(b)(3)(D).

[7]   17 CFR 200.30-3(a)(12).