

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66179; File No. SR-DTC-2011-08)

January 18, 2012

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Enhance Risk Management Controls Associated with the Receiver Authorized Delivery Function

I. Introduction

On November 16, 2011, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-DTC-2011-08 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4² thereunder. The proposed rule change was published for comment in the Federal Register on December 2, 2011.³ The Commission received no comment letters regarding the proposal. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

The rule change will enhance the risk management controls associated with DTC’s Receiver Authorized Delivery (“RAD”) function. The RAD function enables each Participant to control and review a Deliver Order (“DO”)⁴ or a Payment Order (“PO”)⁵ that is directed to its

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-65831 (November 28, 2011), 76 FR 75570 (December 2, 2011). In its filing with the Commission, DTC included statements concerning the purpose of and basis for the proposed rule change. The text of these statements is incorporated into the discussion of the proposed rule change in Section II below.

⁴ A Deliver Order is the term used to define an instruction initiating the book-entry transfer of a security from one DTC Participant, as delivering Participant, to another DTC Participant, as receiving Participant.

⁵ A Payment Order is the term used to define an instruction initiating a transaction in which a Participant charges another Participant for changes in value for outstanding stock loans or option contract premiums. Payment orders involve no securities, only money.

account by another Participant before its account is updated. The RAD function was built in 1990 to route money market instrument (“MMI”) transactions for receiver approval. In 1996, there was a conversion for all transactions to settle in same-day funds subject to the net debit cap control⁶ and collateral controls⁷. Any DO that obligated a Participant to pay \$15 million or more and any PO that obligated a Participant to pay \$1 million or more became subject to RAD. (In order to minimize blockage, DTC excluded from RAD any DO under \$15 million and any PO under \$1 million.) Transactions in such lower amounts were directed to the account of the receiving Participant without the RAD filter. For such lower amounts, the receiving Participant has the ability on the same day as the original delivery to instruct a matched reclaim⁸ transaction not subject to the original delivering Participant’s collateral monitor and net debit cap controls.

With this rule filing, DTC is proposing the following revisions to RAD:

- (i) DTC will expand RAD to include Omgeo Institutional Delivery (“ID”) transactions in excess of \$15 million at the receiving Participant’s election. If no

⁶ The net debit cap control is designed so that DTC may complete settlement even if a Participant fails to settle. Before completing a transaction in which a Participant is the receiver of securities, DTC calculates the effect the transaction would have on such Participant’s account and determines whether any resulting net debit balance would exceed its net debit cap. Any transaction that would cause the Participant net debit balance to exceed the Participant’s net debit cap is placed on a pending (recycling) queue until another transaction creates sufficient credit in such Participant’s account so that the net debit cap will not be exceeded.

⁷ An example of a collateral control is the Collateral Monitor (“CM”). DTC tracks collateral in a Participant’s account through the CM. At all times, the CM reflects the amount by which the collateral value in the account exceeds the net debit balance of the account. When processing a transaction, DTC verifies that the CM of neither the deliverer nor the receiver will become negative when the transaction completes. If the transaction would cause either party to have a negative CM, the transaction will recycle until the deficient account has sufficient collateral to proceed or until the applicable cutoff occurs.

⁸ A “reclaim” is a separate DO or PO that a receiving Participant may use to return a DO or PO (typically received in error).

election is made, these transactions will be processed for receipt in the same manner as they currently are processed. (Currently, ID transactions are not routed to RAD and are not subject to matched reclaim.) The change will reduce the receiving Participant's risk relating to ID transactions.

- (ii) Participants will be able to elect to have all free MMI deliveries bypass RAD on a counterparty by counterparty basis. Currently, all free money market instrument ("MMI") deliveries are routed to RAD for receiver approval.⁹ The change will help facilitate customer account transfers.
- (iii) DTC will be able, in its discretion, to apply RAD to all DOs and POs initiated by a "Wind-Down Participant"¹⁰ regardless of value. A receiving Participant will have the option to raise its RAD limit in accordance with its own transaction management objectives (but not to reinstitute matched reclaims in lieu of RAD). DTC views this improvement as a means for Participants, bilaterally, and DTC, multilaterally, to manage liquidity and credit risk in a Wind-Down scenario and to eliminate the risk of matched reclaims to a Wind-Down Participant.

⁹ A receiver that authorizes a free MMI transaction is deemed to have made an agreement outside of DTC with the deliverer that it will make payment outside of DTC in accordance with the agreement of the parties. DTC does not monitor or enforce compliance with such agreements. Participants must enforce these agreements themselves.

¹⁰ DTC Rule 32 defines a "Wind-Down Participant" and provides for actions that may be taken with respect to such a Participant.

- (iv) DTC will exclude from RAD certain receives or deliveries (e.g., the OCC Market Loan program¹¹ account) because these are effectively matched and/or approved by other mechanisms.

DTC also seeks to conform the language of its existing procedures pertaining to processing of reclaims to reflect its current practices:

- (v) Receiving Participants may, only on the same day as the original delivery, instruct a matched reclaim transaction. Any such matched reclaim of a DO with a settlement value of less than \$15 million and a PO with a value less than \$1 million may be processed without reference to the collateral monitor and net debit cap controls for the original delivering Participant.¹²

III. Discussion

Section 19(b)(2)(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.¹³ In particular, Section 17A(b)(3)(A)¹⁴ of the Act requires, among other things, that the clearing agency be so organized and have the capacity to safeguard the securities and funds which are in the custody or control of such clearing agency or for which it is responsible.

¹¹ For more information about the OCC's Market Loan Program, see Securities Exchange Release Act No. 34-59298 (January 26, 2009) 74 FR 5692 (January 30, 2009) [SR-DTC-2008-15].

¹² For more information regarding this change, see Securities Exchange Release Act No. 34-48121 (July 2, 2003) 68 FR 41030 (July 2, 2003) [SR-DTC-2003-06].

¹³ 15 U.S.C. 78s(b)(2)(B).

¹⁴ 15 U.S.C. 78q-1(b)(3)(A).

Because the proposed change would allow DTC to enhance the risk management controls associated with the RAD function to reduce Participant counterparty risk, to enhance DTC's liquidity management, and to facilitate customer account transfers, the Commission believes that the proposed rule change is consistent with DTC's obligations under the Act to safeguard securities and funds in its possession or control for which it is responsible.

IV. Conclusion

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 Act and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2)¹⁵ of the Act, that the proposed rule change (File No. SR-DTC-2011-08) be, and hereby is, approved.¹⁶

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 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).

¹⁷ 17 CFR 200.30-3(a)(12).