

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70675; File No. SR-DTC-2013-10)

October 11, 2013

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Terminate the Sealed Envelope Service, Which is Part of The Depository Trust Company's Custody Service

I. Introduction

On August 22, 2013, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-DTC-2013-10 ("Proposed Rule Change") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The Proposed Rule Change was published in the Federal Register on September 5, 2013.³ The Commission received one comment to the Proposed Rule Change.⁴ This order approves the Proposed Rule Change.

II. Description

DTC filed the Proposed Rule Change to terminate its Sealed Envelope Service ("Service"), which is part of its Custody Service, as described below.

A. Sealed Envelope Service

In 2002, DTC launched the Service as an addition to its Custody Service in response to requests from DTC participants ("Participants") to assist in fully outsourcing their vaults to DTC. The Service is designed to provide physical custody to Participants for documents or instruments

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Release No. 34-70291 (Aug. 30, 2013), 78 FR 54696 (Sept. 5, 2013).

⁴ See Comment from Sheila Waddell dated September 2, 2013 ("Waddell Comment"), <http://www.sec.gov/comments/sr-dtc-2013-10/dtc201310-1.htm>.

that are not securities, such as loan agreements, wills, deeds, mortgages, contracts, and option agreements.⁵

DTC allows for the sealed envelopes containing instruments or documents that are not securities to be held in custody in one of DTC's vaults. DTC assigns each sealed envelope a user-CUSIP number for tracking and record keeping purposes. Participants balance their sealed envelopes daily with DTC in the same manner as for securities held in the Custody Service. The depositing Participant is required to list the contents of the envelope on the outside of the envelope, as DTC does not open any sealed envelopes or verify the contents therein other than an examination for dangerous contents.

Proposed Rule Change

DTC has determined to discontinue the Service for multiple reasons. First, the Service is not widely used, as only 15 Participants currently use the Service and one of those Participants represents approximately 85% of the total volume. Second, since DTC does not verify the content of the envelope submitted by a Participant under the Service, it cannot confirm that a sealed envelope contains instruments and document qualifying for the Service.

DTC has stated that all 15 Participants of the Service were notified of DTC's intention to discontinue the Service and none of the Participants objected. DTC will work with those Participants to develop a timeline to return sealed envelopes that it currently has in custody.

III. Comments Received

The Commission received one comment on the Proposed Rule Change.⁶ The commenter

⁵ The deposit of securities certificates, as well as tangible assets such as currency, gold coins, or jewelry, is strictly prohibited by DTC.

⁶ Waddell Comment, supra note 4.

supports the Proposed Rule Change and notes that terminating the Service would mitigate risk, promote transparency and integrity in the markets, provide seamless clearing and settlement services, mitigate existing conflicts of interest, and enhance know your customer and customer identification programs.⁷ Furthermore, the commenter states that the Service places an undue burden and risk on DTC because it has no way of verifying the contents of a sealed envelope.⁸

IV. Discussion

Section 19(b)(2)(C) 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.⁹ Section 17A(b)(3)(F) of the Act requires that, among other things, “[t]he rules of the clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and... 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.”¹⁰

Here, as described above, DTC’s proposed rule change to terminate the Service should help further safeguard the securities and settlement process as a whole, as required by Section 17A(b)(3)(F) of the Act,¹¹ by eliminating the risk presented by the fact that DTC does not verify

⁷ See id.

⁸ See id.

⁹ 15 U.S.C. 78(s)(b)(2)(C).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

the contents of sealed envelopes placed in its custody. Moreover, terminating the Service will allow DTC to reallocate resources towards promoting other clearing and settlement processes.

V. Conclusion

On the basis of the foregoing, the Commission finds the Proposed Rule Change is consistent with the requirements of the Act, particularly with the requirements of Section 17A of the Act,¹² and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change SR-DTC-2013-10 be, and hereby is, APPROVED.¹⁴

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

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Deputy Secretary

¹² 15 U.S.C. 78q-1.

¹³ 15 U.S.C. 78s(b)(2).

¹⁴ 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).

¹⁵ 17 CFR 200.30-3(a)(12).