

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73804; File No. SR-DTC-2014-10)

December 10, 2014

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change in Connection with the Modifications to Require Receiver Authorized Delivery Approval for DTC Processing of Institutional Delivery Transactions

I. Introduction

On October 16, 2014, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2014-10 (“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 for comment in the Federal Register on November 3, 2014.³ The Commission did not receive any comments on the Proposed Rule Change. This order approves the Proposed Rule Change.

II. Description

DTC filed the Proposed Rule Change to modify the DTC Settlement Service Guide (“Guide”) to require DTC Participants⁴ to use the Receiver Authorized Delivery (“RAD”) function to accept any affirmed institutional delivery transaction (“ID Transaction”) prior to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 73443 (Oct. 28, 2014), 79 FR 65268 (Nov. 3, 2014).

⁴ Terms not defined herein have the meaning set forth in DTC’s Rules, By-Laws, and Organization Certificate (“Rules”), available at http://dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.ashx.

DTC processing of the delivery. With the Proposed Rule Change, DTC seeks to reduce uncertainty in the settlement of ID Transactions.

Pursuant to a recent rule change,⁵ DTC requires all non-institutional Deliver Orders and Payment Orders⁶ to be approved through RAD. RAD enables a receiver of valued deliveries of securities (“Receiver”) to manage which deliveries to accept, or to reject, prior to further processing by DTC. With this process, DTC seeks to establish a consistent internal “matching” system for book-entry deliveries at DTC.

ID Transactions generally have not required RAD approval because the transactions are externally pre-matched through Omgeo, LLC,⁷ although Participants were permitted to apply RAD voluntarily.⁸ Because RAD was not required, a Receiver could use the same-day reclaim process to return securities to the original Participant delivering securities (“Deliverer”) without the acceptance of the Deliverer. DTC states that this process creates uncertainty for Participants and DTC as to whether securities will be delivered or reclaimed on the same day without the prior acceptance of the Receiver or original Deliverer.

⁵ Securities Exchange Act Release No. 72576 (Jul. 9, 2014); 79 FR 41335 (Jul. 15, 2014) (SR-DTC-2014-06).

⁶ A Deliver Order is a book-entry movement of a particular security between two Participants. A Payment Order is a method for settling funds related to transactions and payments not associated with a Deliver Order.

⁷ Omgeo is a leading provider of post-trade, pre-settlement institutional trade management solutions, processing over one million trades per day, and servicing approximately 6,500 investment managers, broker/dealers, and custodians in over 50 countries. See About DTCC: Omgeo LLC, <http://dtcc.com/about/businesses-and-subsidiaries/omgeo.aspx>

⁸ Receivers may optionally set their DTC profile to route ID Transactions to RAD.

Pursuant to the Proposed Rule Change, DTC will amend the Guide to eliminate this uncertainty by requiring the intended Receiver to approve the ID Transaction in RAD before DTC processes the transaction.⁹ Same-day reclaims will also be subject to RAD approval by the original Deliverer, as though the reclaim was its own, separate transaction. As with any securities delivery, these transactions will be subject to DTC's risk management controls.¹⁰

Additionally, with the Proposed Rule Change DTC will make technical updates to the Guide: (i) update the text for consistency to reflect that all valued Deliver Orders, Payment Orders, ID Transactions, MMI transactions, reclaims, pledges, and releases of pledged securities will be subject to RAD; (ii) update the text for consistency to reflect that all reclaims will be subject to risk management controls and remove references to system functions related to reclaims that have become obsolete; (iii) add an e-mail address to which Settling Banks seeking to adjust Net Debit Caps may send their requests, in addition to via mail or overnight delivery to the existing mailing address; (iv) indicate where Participants may access certain system functions via Settlement Web either in addition to, or in lieu of, PBS/PTS; (v) eliminate references to fees relating to the ID Net service, which are redundant since those fees are also listed in DTC's fee

⁹ For processing efficiency, the proposed change to the Guide will offer Participants the option to set their system profile to allow affirmed ID Transactions to be automatically accepted in RAD. However, Participants will no longer have an option to allow ID Transactions to bypass RAD.

¹⁰ DTC risk management controls, including Collateral Monitor and Net Debit Cap (as defined in DTC Rule 1), are designed so that DTC may complete system-wide settlement notwithstanding the failure to settle of its largest Participant or affiliated family of Participants. The Collateral Monitor tests that a Receiver has adequate collateral to secure the amount of its net debit balance and the Net Debit Cap limits the net debit balance of a Participant so that it cannot exceed DTC liquidity resources for settlement. See DTC Rules, http://dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.ashx.

schedule; and (vi) delete reference to the population of a “third party” field on DTC’s system screens for the ID Net service, which is no longer applicable.

The effective date of the Proposed Rule Change, including the dates of the implementation phases described above, will be announced via a DTC Important Notice.

III. Discussion

Section 19(b)(2)(C) of the Act¹¹ 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 rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹² In addition, Rule 17Ad-22(d)(12) of the Act requires that a clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure that final settlement occurs no later than the end of the settlement day and require that intraday or real-time finality be provided where necessary to reduce risks.¹³

The Commission finds the Proposed Rule Change consistent with the Act. More specifically, as the Proposed Rule Change pertains to requiring acceptance through RAD of any affirmed ID Transaction, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act¹⁴ because the change will increase the number of deliveries that

¹¹ 15 U.S.C. 78s(b)(2)(C).

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(d)(12).

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

will require Receiver approval prior to DTC processing. This requirement will reduce the intraday uncertainty and associated risks that may currently arise from same-day reclaims, thus facilitating the prompt and accurate clearance and settlement of securities transactions. The Commission also finds these aspects of the Proposed Rule Change consistent with Rule 17Ad-22(d)(12) under the Act¹⁵ because more transactions will be subject to DTC's risk management controls, which helps ensure that final settlement occurs no later than the end of the settlement day.

As the Proposed Rule Change pertains to the proposed technical changes, the Commission finds that the Proposed Rule Change is also consistent with Section 17A(b)(3)(F) of the Act¹⁶ because updates to the Guide to make it more clear, consistent, and current supports the prompt and accurate clearance and settlement of securities transactions.

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 with the requirements of Section 17A of the Act¹⁷ and the rules and regulations thereunder.

¹⁵ 17 CFR 240.17Ad-22(d)(12).

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR-DTC-2014-10 be, and hereby is, APPROVED.¹⁸

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Kevin M. O'Neill
Deputy Secretary

¹⁸ 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).

¹⁹ 17 CFR 200.30-3(a)(12).