

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-61249; File No. SR-DTC-2009-17)

December 29, 2009

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Allow The Depository Trust Company to Provide Settlement Services to European Central Counterparty Limited for U.S. Securities Traded on European Trading Venues

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 December 17, 2009, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III 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.

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

The purpose of this proposed rule change is to allow DTC to provide settlement services to European Central Counterparty Limited (“EuroCCP”) for U.S. securities traded on European trading venues (“EuroCCP’s U.S. Program”).

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

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 IV below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most

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

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

significant aspects of these statements.<sup>3</sup>

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

EuroCCP is a clearing house recognized by the United Kingdom and regulated by the Financial Services Authority ("FSA"). It provides central counterparty clearance and settlement services to participants executing securities transactions on or through European trading venues. Several of the trading platforms EuroCCP services are asking EuroCCP to begin clearing and settling trades in U.S. equities, Exchange Traded Funds ("ETFs"), and American Depositary Receipts ("ADRs").<sup>4</sup> Trades in these securities would be routed to EuroCCP through existing interfaces with the trading platforms and would be novated and netted in accordance with EuroCCP's Rules and Procedures. EuroCCP would employ its current trade day netting methodology to produce a single settlement obligation each day.<sup>5</sup>

EuroCCP would like to use DTC's settlement services for these U.S. securities transactions by opening and operating an account at DTC. EuroCCP participants in the EuroCCP's U.S. Program would be required to appoint U.S. settlement agents<sup>6</sup> to settle

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<sup>3</sup> The Commission has modified the text of the summaries prepared by OCC.

<sup>4</sup> The platforms would support trading activity of U.S. issues in U.S. dollars. The platforms currently operate from 8:00 a.m. London time to 4:30 p.m. London time.

<sup>5</sup> The single settlement obligation calculated by EuroCCP is per issue per participant and would settle at DTC on T+3.

<sup>6</sup> These settlement agents would have to be DTC participants.

obligations on their behalf,<sup>7</sup> and EuroCCP would be subject to the same net debit cap<sup>8</sup> and collateral<sup>9</sup> controls as any other DTC participant.

DTC proposes modifying its Settlement Service Guide in three ways to maximize settlement efficiencies for DTC participants acting as U.S. settlement agents in the EuroCCP U.S. Program. First, matched reclaims to EuroCCP's account would not be allowed. A reclaim is an instruction from a participant to DTC to return a delivery. It is generally used in the event of an error where a participant does not recognize the delivery. DTC's systems attempt to identify a corresponding original transaction for every reclaim presented for processing. If the system identifies a corresponding original transaction, it processes the reclaim as a match.<sup>10</sup>

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<sup>7</sup> EuroCCP would be given a reason code for the transactions it processes through its DTC account. As part of this filing, DTC proposes updating its Settlement Service Guide to reflect this reason code. In addition, DTC is proposing that the language in the Memo Segregation section of the Settlement Service Guide and the reason codes that receive Memo Segregation treatment be updated to reflect this reason code and to reflect certain other technical, non-substantive changes to the reason codes.

<sup>8</sup> The net debit cap helps ensure that DTC can complete settlement even if a participant fails to settle. Before completing a transaction in which a participant is the receiver, DTC calculates the resulting effect the transaction would have on such participant's account and determines whether the resulting net balance would exceed the participant's net debit cap. Any transaction that would cause the net settlement debit to exceed the net debit cap is placed on a pending queue that recycles until another transaction creates credits in such participant's account.

<sup>9</sup> DTC tracks collateral in a participant's account through its Collateral Monitor ("CM"). At all times, the CM reflects the amount by which the collateral in the account exceeds the net debit in the account. When processing a transaction, DTC verifies that the deliverer's and receiver's CMs will not 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.

<sup>10</sup> The following seven elements must be consistent for the system to process a reclaim as a match: receiver, deliverer, CUSIP, quantity, dollar amount, shares, and settlement date.

Under DTC's existing Settlement Service Guide procedures, a receiving participant that requests a reclaim to EuroCCP for less than \$15 million could override DTC's risk management controls for EuroCCP's account and create a consequent debit in the EuroCCP account. If DTC processed matched reclaims in this fashion, EuroCCP would run the risk of overriding its net debit cap, exceeding its liquidity resources, and being unable to complete settlement with DTC. To avoid this outcome, DTC proposes changing its procedures so that reclaims under \$15 million would not override DTC's risk management controls. Instead, such reclaims would recycle until the reclaim can settle without violating EuroCCP's net debit cap and collateral controls or until the reclaim drops at the recycle cutoff.<sup>11</sup> This is how DTC currently treats reclaims that are over \$15 million dollars.

Second, DTC proposes modifying its Settlement Service Guide so that pending valued and free transactions to or from the EuroCCP account would fail to settle or "drop" at 3:10 p.m.<sup>12</sup> Items that would drop include deliveries to EuroCCP failing due to lack of position by the delivering participant and items failing DTC's risk management controls. This cutoff time would allow EuroCCP to close its business day.

Third, the Receiver Authorized Delivery ("RAD") cutoff time would be 3:30 p.m. for both valued and free delivery transactions. DTC's current RAD<sup>13</sup> deadline for valued

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<sup>11</sup> If the reclaim drops at the recycle cutoff, then the receiving participant will retain the securities and the debit for the delivery it received from EuroCCP.

<sup>12</sup> DTC's current cutoff time for pending valued transactions is 3:10 p.m. and for pending free transactions is 6:35 p.m.

<sup>13</sup> RAD is a control mechanism which allows a participant to review transactions prior to completion of processing. It limits the exposure from misdirected or erroneously entered deliver orders, payment orders, and pledges.

transactions is 3:30 p.m., but the RAD deadline for free delivery transactions is 6:30 p.m. To allow EuroCCP to halt transaction processing in the EuroCCP account and end its processing day, DTC would require a synchronized RAD cutoff time of 3:30 p.m. for valued and free delivery transactions.

DTC believes the proposed rule changes are consistent with the requirements of Section 17A of the Act<sup>14</sup> and the rules and regulations thereunder because the proposed changes would facilitate prompt and accurate clearance and settlement of securities transactions by leveraging DTC settlement systems to process transactions in U.S. securities that are traded on European trading venues.

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

DTC does not believe that the proposed rule change would impose any burden on competition.

(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 been solicited or received. DTC will notify the Commission of any written comments received by DTC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve the proposed rule change or

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<sup>14</sup> 15 U.S.C. 78q-1.

- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. 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 Number SR-DTC-2009-17 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 Number SR-DTC-2009-17. 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 Web site (<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 inspection and copying in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-1090, on official business days between the hours of 10:00 am

and 3:00 pm. Copies of such filings will also be available for inspection and copying at the principal office of the DTC and on DTC's Web site at

[http://www.dtcc.com/downloads/legal/rule\\_filings/2009/dtc/2009-17.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2009/dtc/2009-17.pdf).

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 Number SR-DTC-2009-17 and should be submitted on or before [insert date 21 days from publication in the Federal Register]

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

Florence E. Harmon  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).