

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65186; File No. SR-DTC-2011-06)

August 23, 2011

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change to Amend Rules Relating to the Early Redemption of Certificates of Deposit

I. Introduction

On July 1, 2011, The Depository Trust Company (“DTC”) filed proposed rule change SR-DTC-2011-06 with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ Notice of the proposed rule change was published in the Federal Register on July 18, 2011.² The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

Recently, several issuers of Certificates of Deposit (“CDs”) have contacted DTC in an attempt to redeem or “call” their CDs prior to the maturity date. The master certificate of these CDs did not expressly specify that they were callable or subject to early redemption. In some instances, the issuer offered to pay DTC participants the principal plus interest through the date of maturity. In other instances, the issuer offered to pay principal plus interest only through the date of redemption. Because the master certificates did not expressly indicate the CDs could be

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 64864 (July 12, 2011), 76 FR 42149 (July 18, 2011). A technical correction to this notice was made on July 18, 2011. 76 FR 45309 (July 28, 2011).

redeemed early, a number of DTC participants expressed their concerns that the CDs had been sold to investors without disclosing the possibility of early redemption.

Over the past several months, DTC has worked with industry representatives, including the Retail Fixed Income Committee of The Securities Industry and Financial Markets Association (“SIFMA”), to better understand the issues related to the early redemption of CDs that do not contain express early redemption provisions. As a result, DTC is amending its Redemption Service Guide to state that DTC will not process early redemptions or calls on CDs unless (1) there is an explicit provision in the master certificate that permits early redemption by the issuer and specifies the payment to be made in connection therewith or (2) written consent to an early redemption in a form designated by DTC is obtained by the issuer from all of the holders of the CD. Furthermore, in the event that an issuer sends such payment to DTC in contravention of the rule, DTC will return the payment, less any costs associated with facilitating the attempted redemption and return of funds, to the issuer.

III. Discussion

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 and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.³ The Commission finds that DTC’s rule change should clarify the terms and conditions under which DTC will process the early redemption of certain CDs and thus should facilitate the prompt and accurate clearance and settlement of transactions involving these CDs and should remove impediments to

³ 15 U.S.C. 78q-1(b)(3)(F).

and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest.

Accordingly, for the reasons stated above the Commission believes that the proposed rule change is consistent with DTC's obligation under Section 17A of the Act and the rules and regulations thereunder.⁴

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, particularly 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) of the Act, that the proposed rule change (File No. SR-DTC-2011-06) be and hereby is approved.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.⁵

Elizabeth M. Murphy
Secretary

⁴ In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁵ 17 CFR 200.30-3(a)(12).