SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66894; File No. SR-DTC-2012-03)

May 1, 2012

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Implement a Change in the Practices of The Depository Trust Company as They Relate to Post-payable Adjustments

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on April 25, 2012, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II 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 Substance of the Proposed Rule Change

The purpose of the proposed rule change is to implement a change in the practices of DTC as they relate to post-payable adjustments of principal and income payments ("P&I").[3]

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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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 In addition, DTC is updating its Operational Arrangements with a clarification regarding notifications.

significant aspects of these statements.[4]

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

(i) Historically, DTC has accommodated issuers and/or their agents ("Paying Agents") by facilitating the collection and in many cases the reallocation of certain misapplied, misdirected, or miscalculated P&I.[5] Under today's practices, DTC will process requests for these types of post-payable adjustments up to one year after the initial payment is made. Subject to Commission approval, effective November 1, 2012, DTC will no longer accommodate Paying Agent requests to process these types of post-payable adjustments beyond 60 calendar days after the initial payment date. This change in practice will allocate assignment of accountability appropriately and will mitigate the risk associated with the reallocation of such principal and income payments.

Background:

Several years ago, DTC formed a cross-industry working group to study the severity of P&I processing problems and to analyze possible solutions. The working group at that time focused mainly on the timeliness of rate information submitted to DTC by paying agents and recommended several changes to DTC's Operational Arrangements. Those changes were approved by the Commission and implemented in 2008 ("2008 changes")[6]. Implementation of the 2008 changes resulted in a 75% decrease in late rate information and a significant increase in

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4 The Commission has modified the text of the summaries prepared by DTC.

5 P&I include Principal Pass-Thru payments, Full Calls, Partial Calls, Maturities, Pre-Refundings and all interest and dividend payments.

6 Securities Exchange Act Release Number 34-57542 (March 20, 2008), 73 FR 16403 (March 27, 2008).

the allocation of P&I on payment date. More recently, the working group has suggested that, among other things, DTC create a time limit for processing post-payable adjustments received from Paying Agents.

Under current practice, DTC processes post-payable adjustments received from Paying Agents up to one year after the initial payment is made. After DTC processes the debits and credits for the misapplied P&I, DTC participants must process trade adjustments against any customer who traded the security since the error occurred. Participants must also process adjustments to their customers' accounts for the misapplied principal and associated interest. DTC has been requested a number of times by the Association of Global Custodians to focus more closely on the risks associated with income adjustments and to look for ways to reduce that risk.[7]

In an effort to further reduce the inherent risks associated with these types of post-payable adjustments and to compel all parties in the payment chain to confront and minimize the challenges associated with principal and income adjustments, subject to Commission approval effective November 1, 2012, DTC will implement a practice whereby no adjustments for P&I will be accepted or processed by DTC from Paying Agents beyond 60 calendar days from the initial payment date. This practice will apply to all security types. DTC will continue to accommodate Paying Agents by facilitating the collection and in many cases the reallocation of certain misapplied, misdirected, or miscalculated P&I on all security types where the adjustments

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7 In fact, the Association of Global Custodians' recommendation was to adopt a new practice in which DTC would state that: (i) misapplied, misdirected, or miscalculated principal payments must be reversed within two business days after the initial payment; and (ii) misapplied, misdirected, or miscalculated interest payments and cash dividend payments must be reversed within seven business days after payment. However, at this time, DTC is establishing an interim policy, which will put it closer to such an end state.

are within sixty calendar days from payment date. Issuers and Agents wishing to modify certain principal and income payments beyond sixty calendar days may do so by obtaining a "P & I Allocation Register" and making adjustments and payment arrangements directly with the affected DTC Participants.

(ii) The proposed rule change is consistent with the provisions of the Act, and the rules and regulations thereunder applicable to DTC and in particular to Section 17A(b)(3)(F) [8] because limiting the ambiguity surrounding payment finality will help DTC remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

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

DTC does not believe that the proposed rule change will have any impact or 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 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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:

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[8] 15 U.S.C. 78q-1(b)(3)(F).

(A) by order approve or disapprove the proposed rule change or

(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. Please include File Number SR-DTC-2012-03 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-2012-03. 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 website (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 website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549, on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of DTC and on DTC's website at http://www.dtcc.com/downloads/legal/rule_filings/2012/dtc/2012-03.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-2012-03 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.[9]

Kevin O'Neill
Deputy Secretary

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[9] 17 CFR 200.30-3(a)(12).