

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69985; File No. SR-DTC-2013-04)

July 12, 2013

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change in Connection with the Modifications to Receiver Authorized Delivery and Reclaim Processing Value Limits by Transaction

I. Introduction

On May 17, 2013, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-DTC-2013-04 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 June 5, 2013.³ 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 its Rules & Procedures (“Rules”), with respect to Receiver Authorized Delivery (“RAD”) and reclaim transactions, to: (i) lower limits against which valued Deliver Orders (“DO”) and Payment Orders (“PO”)⁴ will be required to be accepted for receipt (i.e., “matched” for settlement); (ii) lower limits for same

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Release No. 34-69666 (May 30, 2013), 78 FR 33876 (June 5, 2013).

⁴ A Deliver Order is a book-entry movement of a particular security between two DTC participants. A Payment Order is a method for settling funds amounts related to transactions and payments not associated with a Deliver Order. The defined term “DO” as used in this proposed rule change filing includes all valued Deliver Orders except for Deliver Orders of: (i) money market instruments and (ii) institutional deliveries affirmed through Omgeo, both of which are not impacted by the proposed rule change.

day reclaim transactions; and (iii) revise the process for RAD matching of stock loans and returns.

Currently DOs and POs valued in amounts above \$15 million and \$1 million, respectively, are subject to the RAD process, which allows receivers to review and reject transactions that they do not recognize prior to processing for delivery. In contrast, lower value DOs and POs do not require the receiver's acceptance prior to processing in accordance with DTC's Rules; instead, such transactions may be returned by the receiver in a reclaim transaction, if the receiver does not recognize the DO or PO. While both the reclaim and RAD functionalities allow receiving DTC participants ("Participants") to exercise control over which transactions to accept, reclaims tend to create uncertainty because transactions can be returned late in the day, when the original deliverer may have limited options to respond. Because such reclaims are permitted without regard to risk management controls, the Participant that initiated the original delivery versus payment may then incur a greater settlement obligation, increasing credit and liquidity risk to that Participant and to DTC.⁵

Under the proposal, DTC is changing RAD to require Participants to match all settlement-related transactions valued greater than \$7.5 million for valued DOs and \$500,000 for POs, prior to processing. Matched transactions will be processed through DTC subject to

⁵ DTC's risk management controls, including Collateral Monitor and Net Debit Cap (as defined in DTC Rule 1), are designed so that DTC can effect system-wide settlement notwithstanding the failure to settle of its largest Participant or affiliated family of Participants. Net Debit Cap limits the net debit balance a Participant can incur so that the unpaid settlement obligation of the Participant, if any, cannot exceed DTC liquidity resources. The Collateral Monitor tests that a receiver has adequate collateral to secure the amount of its net debit balance so that DTC may borrow funds to cover that amount for system-wide settlement if the Participant defaults.

risk management controls.⁶ According to DTC the rule change will reduce the intraday uncertainty that may arise from reclaim transactions and any potential credit and liquidity risk from such reclaims.

DTC also proposed a further revision to RAD for stock loan and stock loan return transactions. Currently, Participants may set bilateral and global limits for transactions subject to RAD which allow transactions with settlement values that are greater than DTC's default limits, but less than the Participant's defined bilateral and/or global limits, to be passively approved.⁷ Any established limits apply to all transactions with the applicable counterparties (on either a bilateral or global basis) for all transaction types subject to RAD. However, stock loan transactions (and stock loan returns) are often different from ordinary buys and sells, because stock loans are often agreed upon on a same-day basis (as opposed to T+3 settlement of purchases and sales). Taking this difference into account, in addition to the revisions described above, the rule changes will allow receiving Participants to establish bilateral and global RAD limits for stock loans and stock loan returns that are different from other transaction types.⁸

⁶ Each reclaim of a matched transaction that is attempted will be processed as an original instruction and be subject to risk management controls and receiver approval (the original deliverer) via RAD.

⁷ A bilateral limit established by a Participant applies to transactions from a specified deliverer. A global limit established by a Participant is applied to all valued DOs and POs to the Participant not otherwise subject to a bilateral limit. Transactions passively approved under such limits may not be reclaimed.

⁸ The use of a stock lending and return profile will be voluntary and, absent a profile, the Participant's transactions will be subject to RAD as applicable to ordinary DOs, including the established DTC limits as well as Participant established bilateral and global limits as described above.

The DTC Settlement Services Guide will be revised to reflect the changes discussed above, and the effective date of the rule change will be announced through the issuance of a DTC Important Notice.

III. Discussion

Section 19(b)(2)(C) of the Act⁹ 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 Act¹⁰ 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. The Commission finds that the rule change is consistent with these requirements because it will enhance settlement certainty by increasing the number of deliveries which will be required to be approved by a receiving Participant prior to DTC processing, thereby reducing the intraday uncertainty that may arise from reclaim transactions and any potential credit and liquidity risk from such reclaims and facilitating the prompt and accurate clearance and settlement of securities transactions.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹¹ and the rules and regulations thereunder.

⁹ 15 U.S.C. 78s(b)(2)(C).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (File No. SR-DTC-2013-04) be, and hereby is, approved.¹³

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Elizabeth M. Murphy
Secretary

¹² 15 U.S.C. 78s(b)(2).

¹³ In approving the proposed rule change, the Commission considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 17 CFR 200.30-3(a)(12).