

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-101486; File No. SR-DTC-2024-010)

October 31, 2024

Self-Regulatory Organizations; The Depository Trust Company; Order Approving of
Proposed Rule Change to Decommission the ID Net Service

I. INTRODUCTION

On September 12, 2024, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2024-010 (“Proposed Rule Change”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² to decommission the ID Net service (“ID Net Service” or “ID Net”).³ The Proposed Rule Change was published for comment in the Federal Register on September 27, 2024.⁴ The Commission has received no comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

II. BACKGROUND

DTC serves as a central securities depository providing, in part, custodial services for equity securities, which include the safekeeping, record keeping, book-entry transfer,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC (“Rules”) and the DTC Settlement Service Guide (“Settlement Guide”), available at <https://www.dtcc.com/legal/rules-and-procedures.aspx>.

⁴ See Securities Exchange Act Release No. 101132 (Sept. 23, 2024), 89 FR 79320 (Sept. 27, 2024) (File No. SR-DTC-2024-010) (“Notice of Filing”).

and pledge of securities among its Participants.⁵ The ID Net Service is a joint service offering of DTC and its affiliate, National Securities Clearing Corporation (“NSCC”), available on a voluntary basis to broker/dealers that are participants of both NSCC and DTC and banks that are participants of DTC.⁶ ID Net allows broker/dealer users to net their affirmed institutional transactions (“Affirmed Transactions”) with their transactions in NSCC’s Continuous Net Settlement (“CNS”) system.⁷ An institutional transaction is one between a broker/dealer and its institutional customer. Such institutional customers are not Participants of DTC. Unlike exchange trades and most prime broker trades, most institutional delivery transactions do not currently flow through CNS but instead settle at DTC on a trade-for-trade basis.⁸ DTC may accept Affirmed Transactions submitted by a utility that provides a matching service (“Matching Utility”).⁹ The counterparties on an

⁵ See The Depository Trust Company, Disclosure Framework for Covered Clearing Agencies and Financial Market Infrastructures (Mar. 2023) (“Disclosure Framework”), available at https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/DTC_Disclosure_Framework.pdf.

⁶ NSCC also filed a proposed rule change with the Commission in connection with decommissioning the ID Net Service. See Securities Exchange Act Release No. 101131 (Sept. 23, 2024), 89 FR 79324 (Sept. 27, 2024) (File No. SR- NSCC-2024-008).

⁷ CNS is NSCC’s system for accounting and settling CNS-eligible securities. See NSCC Rule 11 (describing the CNS System) and Procedure VII (describing the CNS Accounting Operation), available at www.dtcc.com/-/media/Files/Downloads/legal/rules/nscclrules.pdf. To be CNS-eligible, a security must be eligible for book-entry transfer on the books of DTC and must be capable of being processed in the CNS system. All eligible compared and recorded transactions for a particular settlement date are netted by issue into one net long (buy), net short (sell) or flat position for each Member, and those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date. As central counterparty, NSCC becomes the contra-party for settlement purposes, assuming the obligation of its Members that are receiving securities to receive and pay for those securities and the obligation of Members that are delivering securities to make the delivery. CNS netting thus reduces the number of securities movements required to settle transactions.

⁸ See DTC Settlement Guide, supra note 3.

⁹ The Matching Utility must be (i) a clearing agency registered with the Commission, (ii) an entity that has obtained an exemption from such registration from the Commission, or (iii) a “qualified vendor” for trade confirmation/affirmation services as defined by the rules of a self-regulatory

Affirmed Transaction submitted by a Matching Utility to DTC are a (i) DTC Participant, acting as clearing broker to the Affirmed Transaction and a (ii) DTC Participant bank, acting as the custodian for an institutional customer. The Affirmed Transaction is processed on a trade-for-trade basis at DTC, unless it is designated for ID Net processing by the Matching Utility and meets certain eligibility requirements.

In order for an Affirmed Transaction to be eligible for processing in ID Net, (i) both counterparties to the Affirmed Transaction must be a Member of NSCC and a Participant of DTC, or a bank that is a Participant of DTC, that has subscribed to ID Net; and (ii) the transaction must be (a) in a security eligible for processing through NSCC's CNS and (b) affirmed within established timeframes set forth in the Settlement Guide.¹⁰

If an Affirmed Transaction is designated for ID Net and meets the eligibility criteria, then DTC will direct the transaction to ID Net, which facilitates the netting of a broker/dealer's side of an Affirmed Transaction with that broker/dealer's CNS activity, via omnibus accounts that are maintained by NSCC at DTC and designated for ID Net activity. If a bank is a counterparty to the ID Net-eligible Affirmed Transaction, then it will either receive or deliver the subject shares versus payment, on a trade-for-trade basis, via the ID Net omnibus accounts.

While ID Net allows broker/dealers to realize the benefit of netting for Affirmed Transactions by allowing the broker/dealer to net its ID Net-eligible Affirmed

organization. See DTC Settlement Guide, supra note 3, at 40. TCC ITP Matching (US) LLC ("ITP"), a DTC and NSCC affiliate, is currently the only Matching Utility that submits Affirmed Transactions to DTC. See Notice of Filing, supra note 4, at 79320 n.8.

¹⁰ See Settlement Guide, supra note 3, at 40-41.

Transactions with its transactions in CNS, banks using ID Net settle ID Net transactions on a trade-for-trade basis as they would for other Affirmed Transactions. In this regard, DTC states that ID Net's main benefit is to streamline clearance and settlement of ID Net-eligible Affirmed Transactions for broker/dealers.¹¹

III. DESCRIPTION OF THE PROPOSED RULE CHANGE

DTC states that as part of DTC's and NSCC's continuous evaluations to the efficiency and effectiveness of the services they provide and in order to streamline and simplify their services and processes, DTC and NSCC have identified ID Net as an underused service that may be eliminated as part of modernization efforts.¹² They each propose to decommission the ID Net Service due to factors including: (i) limited uptake and usage of the service since its adoption; and (ii) the operational complexity of maintaining the service, which also connects with and impacts other core clearance and settlement processes.¹³

To implement the proposed change, DTC proposes removing all provisions relating to ID Net from the Settlement Guide, including (i) the entire text of the section titled "ID Net," which contains the DTC Procedures for processing of ID Net

¹¹ See Notice of Filing, supra note 4, at 79321.

¹² Id.

¹³ DTC states that this complexity includes (i) special eligibility checks versus the ID Net eligibility criteria and (ii) leveraging of the omnibus accounts to simultaneously allow (a) a bank to process ID Net-eligible transactions on a trade-for-trade basis and (b) the broker/dealer side of an ID Net-eligible transaction to settle via CNS. Notice of Filing, supra note 4, at 79321 n.12.

transactions,¹⁴ and (ii) a reference to ID Net relating to messaging in the section titled “Affirmed Transactions.”¹⁵

In addition, DTC proposes removing the associated ID Net Fee of 2 cents per transaction from the Guide to the DTC Fee Schedule (“Fee Guide”)¹⁶ because the fee would be obsolete without the ID Net Service. Instead, such transactions would, by default, be charged the standard fee charged for Affirmed Transactions of 4 cents per transaction.¹⁷

DTC believes that the decommission of the ID Net Service would have minimal impact on its Participants, as only 13 broker/dealers and 20 banks are subscribed to the ID Net Service and the service is not used by all of those broker/dealers and banks.¹⁸ Furthermore, without ID Net, Affirmed Transactions can simply settle trade-for-trade, directly between the counterparties like they already do.

DTC states that it has performed direct outreach to Participants that use the ID Net Service and has also announced its plans to decommission the ID Net Service in an

¹⁴ See Settlement Guide, supra note 3, at 40-46.

¹⁵ Id. at 38.

¹⁶ See Fee Guide, available at www.dtcc.com/~media/Files/Downloads/legal/fee-guides/DTC-Fee-Schedule.pdf.

¹⁷ Id.

¹⁸ DTC states that ID Net-related transactions currently comprise less than 1 percent of all activity processed by CNS. DTC believes that ID Net usage has been limited since its implementation in 2008 because, in part, the service needs both parties to an ID Net transaction to be subscribers of ID Net, which is not always the case. See Notice of Filing, supra note 4, at 79321 n.11.

Important Notice, and that there have been no material objections or concerns raised by Participants.¹⁹

IV. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act²⁰ 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. After careful review of the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act.²¹

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as DTC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions.²² The Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

¹⁹ See Notice of Filing, *supra* note 4, at 79321; see also DTC Important Notice regarding decommission of the ID Net Service, available at <https://www.dtcc.com/-/media/Files/pdf/2023/8/8/18852-23.pdf>.

²⁰ 15 U.S.C. 78s(b)(2)(C).

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² Id.

The Proposed Rule Change would amend the Settlement Guide to reflect the decommission of ID Net and remove the ID Net Fee from the Fee Guide. As discussed in Parts II and III, ID Net is an underused service that is operationally complex to maintain, and its main benefit is to broker/dealers' streamline clearance and settlement of ID Net-eligible Affirmed Transactions, which may otherwise settle on a trade-for-trade basis. As such, ID Net's decommission would have minimal impact on DTC and its Participants considering its limited usage. Affirmed Transactions that would have otherwise been directed to ID Net will settle trade-for-trade directly between counterparties, like most other Affirmed Transactions currently do. Therefore, these transactions will continue to settle promptly and accurately, as other Affirmed Transactions do, outside of the ID Net Service. For these reasons, the Commission finds that the Proposed Rule Change should continue to support DTC's ability to provide prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.²³

V. 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 Act²⁴ and the rules and regulations promulgated thereunder.

²³ Id.

²⁴ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act²⁵ that proposed rule change SR-DTC-2024-010, be, and hereby is, APPROVED.²⁶

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Vanessa A. Countryman,

Secretary.

²⁵ 15 U.S.C. 78s(b)(2).

²⁶ In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁷ 17 CFR 200.30-3(a)(12).