

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53851; International Series Release No. 1296; File No. 600-29)

May 23, 2006

Clearstream Banking, S.A.; Notice of Filing of Application to Continue an Existing Exemption from Clearing Agency Registration

I. Introduction

On April 12, 2005, Clearstream Banking, S.A. (“Clearstream”), successor in name to Cedel Bank, societe anonyme, Luxembourg (“Cedel”), filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 17A of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 17Ab2-1 thereunder² and on March 15, 2006 amended, an amendment to its Form CA-1 to reflect changes in its ownership structure that resulted from the acquisition of Clearstream’s parent company, Cedel International, S.A. (“Cedel International”), by Deutsche Börse AG (“DBAG”). The purpose of the amendment is to seek Commission approval to continue Clearstream’s current exemption from clearing agency registration pursuant to which Clearstream provides, subject to certain conditions, clearance and settlement services for U.S. government securities for its U.S. participants. The Commission is publishing this notice to solicit comment from interested persons as to whether Clearstream continues to satisfy the requirements of its exemption from clearing agency registration.

II. Background

A. The 1997 Exemptive Order

On February 24, 1997, the Commission granted Cedel a conditional exemption from registration as a clearing agency to enable Cedel to perform certain functions of a clearing

¹ 15 U.S.C. 78q-1.

² 17 CFR 240.17Ab2-1.

agency with respect to transactions involving U.S. government securities and its U.S. participants (“1997 Exemptive Order”).³ Specifically, the 1997 Exemptive Order permitted Cedel to provide clearance, settlement, and collateral management services to U.S. and non-U.S. entities for transactions in the following U.S. government securities:⁴ (1) Fedwire-eligible U.S. government securities⁵ and (2) mortgage-backed pass-through securities that are guaranteed by the Government National Mortgage Association (collectively, “Eligible U.S. Government Securities”).⁶

The 1997 Exemptive Order also imposed two conditions on Cedel’s ability to provide clearance and settlement services for Eligible U.S. Government Securities.⁷ First, the average daily volume of Eligible U.S. Government Securities processed at Cedel for U.S. participants was limited to five percent of the total average daily dollar value of the aggregate volume in eligible U.S. government securities.⁸ Second, the 1997 Exemptive Order required Cedel to

³ Securities Exchange Act Release No. 38328 (February 24, 1997), 62 FR 9225 (February 28, 1997).

⁴ “Government securities” is defined in Section 3(a)(42) of the Act, 15 U.S.C. 78c(a)(42).

⁵ Fedwire is a large-value transfer system operated by the Board of Governors of the Federal Reserve System that supports the electronic transfer of funds and the electronic transfer of book-entry securities. 1997 Exemptive Order at 62 FR 9231 n.58.

⁶ 1997 Exemptive Order at 62 FR 9231.

⁷ The conditions in the 1997 Exemptive Order reflected the Commission’s determination to take a gradual approach toward permitting an international non-registered clearing agency such as Clearstream to provide securities processing services in U.S. government securities to U.S. market participants. 1997 Exemptive Order at 62 FR 9231.

⁸ The scope of the 1997 Exemptive Order is limited to Eligible U.S. Government Securities and does not apply to other debt or equity securities. For a more complete description of the volume limit, refer to Section III.C.2. of the 1997 Exemptive Order at 62 FR 9232.

provide the Commission access to a variety of information related to Cedel's clearance and settlement operations.⁹

B. Acquisition by DBAG

When the Commission issued the 1997 Exemptive Order, Cedel was a wholly-owned subsidiary of Cedel International, a privately owned entity. Between 1999 and 2002, Clearstream International was created,¹⁰ Cedel was renamed to Clearstream,¹¹ and DBAG acquired Cedel International.¹² As a result of this acquisition, DBAG indirectly owns Clearstream through its ownership of Clearstream International.¹³ Throughout all these mergers, acquisitions, and name changes, Clearstream has remained functionally and legally the same entity as was Cedel.¹⁴

III. Continued Compliance with the Exemptive Order

The 1997 Exemptive Order provides that the Commission may modify by order the terms, scope, or conditions of the exemption from registration as a clearing agency if the Commission

⁹ For a more complete description of the Commission's access to information, refer to Section III.C.3. of the 1997 Exemptive Order at 62 FR 9232.

¹⁰ Clearstream International is the successor to New Cedel International, a company formed in 1999 in connection with DBAG's initial investment in Cedel International.

¹¹ Clearstream is a wholly owned subsidiary of Clearstream International.

¹² The regulatory bodies in Germany, Luxembourg, and the United Kingdom did not object to the acquisition of Cedel International by DBAG.

¹³ Although DBAG exercises voting control over Clearstream International and Clearstream, certain protections have been implemented in order to allow Clearstream's participants to maintain influence over Clearstream's policies and procedures.

¹⁴ For example, Clearstream's clearance and settlement activities are the same as those provided by Cedel, and Clearstream's regulator, the Institut Monetaire Luxembourgeois, is the same as it was for Cedel.

determines that such modification is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹⁵ The Commission may also limit, suspend, or revoke this exemption if the Commission finds that Clearstream has violated or is unable to comply with any of the provisions set forth in the 1997 Exemptive Order if such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act for the protection of investors and the public interest.

The 1997 Exemptive Order was based upon representations and facts contained in Cedel's Form CA-1 and other information known to the Commission regarding the substantive aspects of Cedel's application, including the ownership structure and corporate governance. As a result, changes in the representations and facts as then existed and were presented to the Commission require a modification to the 1997 Exemptive Order. Specifically, where Cedel was user-owned and its participants had direct representation on the board of directors, Clearstream is essentially owned by a single entity (i.e., DBAG) that facilitates user participation through board advisory committees. The Commission believes that it is now appropriate to seek comment on whether continuation of Clearstream's existing exemption from clearing agency registration is appropriate.¹⁶

¹⁵ 1997 Exemptive Order at 62 FR 9233.

¹⁶ Prior to DBAG's acquisition of Cedel International, Clearstream notified the Commission as required by the terms of the 1997 Exemptive Order. Because Clearstream was the same legal entity with Cedel with just a change of name, the 1997 Exemptive Order was not amended prior to changes in ownership structure. In contrast, when Euroclear Bank replaced Morgan Guaranty Trust Company as the operator of the Euroclear System a new legal entity was formed. In that situation, Euroclear's order granting it an exemption from clearing agency registration was modified prior to the change in ownership structure. Securities Exchange Act Release No. 39643 (February 11, 1998), 63 FR 8232 (February 18, 1998), modified in Securities Exchange Act Release No. 43775 (December 28, 2000), 66 FR 819 (January 4, 2001) ("Modified Euroclear Exemptive Order").

Clearstream's operating structure is the same as Cedel's. Clearstream has represented that it uses substantially the same personnel, operating systems, procedures, and risk management as did Cedel.¹⁷ Clearstream has represented that it will continue to substantially satisfy, as Cedel represented, each of the conditions for registration set forth in Section 17A(b)(3) of the Act that relate to the "safe and sound clearance and settlement" in the U.S., which the Commission identified in the 1997 Exemptive Order as the fundamental goal of Section 17A.¹⁸ Accordingly, Clearstream requests the Commission continue the terms and conditions granted to Cedel in the 1997 Exemptive Order. Clearstream does not seek to have any changes made to the "Scope of the Exemption," as set forth in Section III.C. of the 1997 Exemptive Order with respect to the conditions and limitations of the 1997 Exemptive Order.

Clearstream's governance and management structures have been revised to reflect the acquisition by DBAG.¹⁹ Prior to DBAG's acquisition, Cedel and Cedel International were privately owned by their shareholders and shared the same boards of directors. As structured today, Clearstream's four directors are also directors of Clearstream International, which has twenty-one directors on its board. DBAG nominates and elects all directors.

Clearstream's governance structure includes two advisory groups. The User Advisory Group and Credit Advisory Group are both populated by participants, financial institutions, and

¹⁷ For example, the collateral management service discussed in the 1997 Exemptive Order was known as Global Credit Support Service ("GCSS"). GCSS was updated in 1998 and was renamed Tripartite Collateral Management Service ("TCMS"). Like GCSS, TCMS is a book-entry, real-time collateral management service for cross-border securities collateralization.

¹⁸ 1997 Exemptive Order at 62 FR 9231.

¹⁹ Clearstream International and Clearstream have delegated management to a single management group known as Group Executive Management ("GEM"). The GEM is composed of four individuals who currently serve as Clearstream's board of directors, as well as one additional person.

service providers and provide Clearstream users with a forum to discuss changes to Clearstream's products, services, credit standards, and controls.²⁰ These two groups are designed to ensure that a broad range of Clearstream's users are given a voice in the governance of Clearstream.

Section 17A(b)(3)(C) of the Act requires that the rules of a clearing agency provide for fair representation of the clearing agency's shareholders or members and participants in the selection of the clearing agency's directors and administration of the clearing agency's affairs.²¹ That section contemplates that users of a clearing agency will have a significant voice in the direction of the affairs of the clearing agency. Clearstream believes that the current governance and management structure, though different from Cedel's, satisfies the requirements of Section 17A(b)(3)(C) because Clearstream provides for participant participation in management through the two advisory groups.

Section 17A(b)(1) of the Act authorizes the Commission to exempt applicants from some or all of the requirements of Section 17A if it finds such exemptions are consistent with the public interest, the protection of investors, and the purposes of Section 17A, including the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds.²² Therefore, the Commission invites commenters to address whether continuing the 1997 Exemptive Order as requested by Clearstream and as described above, subject to the continuation of the conditions and limitations set forth in that order, would further

²⁰ The interests represented in these groups include issuers, securities information providers, trading firms, financial institutions, and entities providing clearing, settlement, and custody services.

²¹ 15 U.S.C. 78q-1(b)(3)(C).

²² 15 U.S.C. 78q-1(b)(1).

the goals of and would remain consistent with Section 17A. In particular, the Commission seeks comment on whether the revised governance structure, including the addition of advisory committees, such as the User Advisory Group and the Credit Advisory Group, in lieu of directors elected by system participants, continues to meet the requirements of fair representation under Section 17A(b)(3)(C) of the Act. Additionally, the Commission invites comments on amending the 1997 Exemptive Order to permit Clearstream to file volume information on a quarterly basis with the Commission rather than on a monthly basis.²³

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the application 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 600-29 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number 600-29. 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

²³ The 1997 Exemptive Order directs Clearstream to file monthly volume information with the Commission. The Commission is considering amending the 1997 Exemptive Order to permit Clearstream to file volume reports on a quarterly basis. See Modified Euroclear Exemptive Order (directing Euroclear Bank to file quarterly volume reports with the Commission).

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 application that are filed with the Commission, and all written communications relating to the application 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, NE, Washington, DC 20549. 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 600-29 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.²⁴

Nancy M. Morris
Secretary

²⁴ 17 CFR 200.30-3(a)(16).