Pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)\(^1\) and Rule 19b-4(n)(1)(i)\(^2\) thereunder, notice is hereby given that on December 28, 2012, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the advance notice described in Items I, II and III below, which Items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments on the advance notice from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Advance Notice

DTC is proposing to change the current Largest Provisional Net Credit (“LPNC”) risk management control in order to increase withholding from one to two largest provisional credits (on an acronym\(^3\) basis). DTC is also proposing to modify its Rules as they relate to the Issuing/Paying Agent’s (“IPA’s”) refusal to pay process. DTC is proposing not to process a reversal of a transaction initiated by an IPA when issuances of Money Market Instruments (“MMIs”) in an acronym exceed, in dollar value, the maturity or income presentments (“Maturity Obligations”) of MMIs in the same acronym on the same day. As a result, at the

\(^1\) 12 U.S.C. 5465(e)(1).


\(^3\) DTC employs a four-character acronym to designate an issuer’s Money Market Instrument program. An issuer can have multiple acronyms. The Issuing/Paying Agent’s bank uses the acronym(s) when submitting an instruction for a given issuer’s Money Market Instrument securities.
point in time when issuances of MMIs in an acronym exceed, in dollar value, the Maturity Obligations of the MMIs in the same acronym on that day, DTC will remove the LPNC control with respect to the affected acronym.

II. **Clearing Agency’s Statement of Purpose of, and Statutory Basis for, the Advance Notice**

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the advance notice and discussed any comments it received on the advance notice. 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) and (B) below, of the most significant aspects of such statements.4

(A) **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

*Description of Change*

MMI presentment processing is initiated automatically by DTC each morning for MMIs maturing that day. The automatic process electronically sweeps all maturing positions of MMI CUSIPs from DTC Participant accounts and creates the Maturity Obligations. The matured MMIs are, subject to DTC Rules, delivered to the applicable IPA, a DTC Participant, and DTC debits the IPA's account for the amount of the Maturity Obligations. In accordance with DTC Rules, payment will be due from the IPA for net settlement to the extent, if any, that the IPA has a net debit balance in its settlement account at end-of-day.

Without regard to DTC net settlement, MMI issuers and IPAs commonly view the primary source of funding of payments for Maturity Obligations of MMIs as flowing from new issuances of MMIs in the same acronym by that issuer on that day. In a situation where those

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4 The Commission has modified the text of the summaries prepared by DTC.
new issuances exceed the Maturity Obligations, the issuer would have no net funds payment due to the IPA on that day. However, because Maturity Obligations of MMIs are processed automatically at DTC, IPAs currently operationally have the ability to pay for all of an issuer’s maturities. An IPA that refuses payment on an MMI must communicate its intention to DTC using the DTC Participant Terminal/Browser Service (“PTS/PBS”) MMRP function. This communication is referred to as an Issuer Failure/Refusal to Pay (“RTP”) and it allows the Paying Agent to enter a refusal to pay instruction for a particular issuer acronym up to 3:00 p.m. Eastern Time (“ET”) on the date of the affected maturity or income presentment. Such an instruction will cause DTC, pursuant to its Rules, to reverse all transactions related to that issuer’s acronym, including Maturity Obligations and any new issuances, posing a potential for systemic risk since the reversals may override DTC’s risk management controls (e.g., collateral monitor\(^5\) and net debit cap\(^6\)).

To mitigate the risks associated with an RTP, DTC employs the LPNC risk management control. On each processing day, DTC withholds intraday credit from each MMI Participant for the largest credit with respect to an issuer’s acronym, for purposes of calculating the

\(^5\) DTC tracks collateral in a Participant’s account through the Collateral Monitor (“CM”). At all times, the CM reflects the amount by which the collateral value in the account exceeds the net debit balance in the account. When processing a transaction, DTC verifies that the CM of each of the deliverer and receiver will not become negative when the transaction is processed. If the transaction would cause either party to have a negative CM, the transaction will recycle until the deficient account has sufficient collateral to proceed or until the applicable cutoff occurs.

\(^6\) The net debit cap control is designed so that DTC may complete settlement, even if a Participant fails to settle. Before completing a transaction in which a Participant is the receiver, DTC calculates the effect the transaction would have on such Participant’s account, and determines whether any resulting net debit balance would exceed the Participant’s net debit cap. Any transaction that would cause the net debit balance to exceed the net debit cap is placed on a pending (recycling) queue until the net debit cap will not be exceeded by processing the transaction.
Participant’s net settlement balance and collateral monitor. As such, this single largest credit is provisional and is not included in the calculation of the Participant’s collateral monitor or in the settlement balance measured against its net debit cap. DTC believes that the LPNC control will help protect DTC against either (i) the single largest issuer failure on a business day, or (ii) multiple failures on a business day that, taken together, do not exceed the largest provisional net credit.

Maturity payment procedures were designed to limit credit, liquidity, and operational risk for DTC and Participants in the MMI program. In an effort to further mitigate these risks, DTC is proposing the following changes to current processing associated with (1) the LPNC control and (2) limiting intraday MMI reversals under specified conditions:

1. Increase Withholding from One to Two LPNCs

DTC is proposing to change the current LPNC risk management control in order to increase withholding from one to two largest provisional credits (on an acronym basis). DTC believes this will provide increased risk protection in the event of transaction reversals due to multiple issuer defaults or a single issuer default with two or more MMI programs.

DTC has conducted a simulation analysis to measure the impact to IPAs and custodians/dealers of an increase in LPNC controls from one to two on settlement blockage\(^7\) intraday during peak processing periods. DTC analyzed the blockage level for both the IPAs and custodians/dealers as separate segments since each react to the additional blockage in different ways. DTC believes the results of the simulation analysis indicated that there will be no material change in settlement blockage.

\(^7\) Settlement blockage refers to transactions that cannot be completed due to a receiver’s net debit cap or collateral monitor controls.
(2) **Eliminate Intraday Reversals When MMI Issuances Exceed Maturity Obligations**

DTC is also proposing to modify its Rules as they relate to the refusal to pay process. As planned, DTC will not process a reversal of a transaction initiated by an IPA when issuances of MMIs in an acronym exceed, in dollar value, the Maturity Obligations of MMIs in the same acronym on the same day. In such instances, DTC will not process a reversal of the transaction because the IPA would have no reason to exercise the refusal to pay for that acronym on that settlement day. As a result, because the LPNC control is designed to protect against transaction reversals, at the point in time when issuances of MMIs in an acronym exceed, in dollar value, the Maturity Obligations of the MMIs in the same acronym on that day, DTC proposes not to apply the LPNC control with respect to the affected acronym.

*Anticipated Effect on and Management of Risk*

DTC believes that the proposed changes will mitigate the systemic risk associated with MMI transaction reversals due to an IPA refusal to pay instruction by increasing withholding from one to two largest provisional credits (on an acronym basis). DTC believes that this will provide increased risk protection in the event of transaction reversals due to multiple issuer defaults or a single issuer default with two or more MMI programs. By mitigating DTC’s and the financial systems exposure to this systemic risk, DTC believes that the proposed change will contribute to the goal of financial stability in the event of a default, and is consistent with the CPSS-IOSCO Recommendations for Securities Settlement Systems\(^8\) applicable to DTC.

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DTC has discussed this proposal with various industry groups, including the Participants that transact in MMIs, none of whom objected, according to DTC. According to DTC, the Participants understand that the elimination of intraday reversals when issuances exceed Maturity Obligations will result in no material change in settlement blockage and will mitigate systemic risk as a whole. DTC believes the proposed changes should promote settlement finality by precluding reversals for those issuances.

(B) Clearing Agency’s Statement on Comments on the Advance Notice Received from Members, Participants, or Others

The subject proposal regarding MMIs was developed in consultation with various industry organizations. Written comments relating to the proposed changes contained in the advance notice have not yet been solicited or received. DTC will notify the Commission of any written comments received by DTC.

III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The clearing agency may implement the proposed change pursuant to Section 806(e)(1)(G) of the Clearing Supervision Act\(^9\) if it has not received an objection to the proposed change within 60 days of the later of (i) the date that the Commission received the advance notice or (ii) the date the Commission receives any further information it requested for consideration of the notice. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be

implemented in less than 60 days from the date of receipt of the advance notice, or the date the Commission receives any further information it requested, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission. The clearing agency shall post notice on its website of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.10

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the advance notice is consistent with the Clearing Supervision 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-2012-810 on the subject line.

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10 DTC also filed the proposals contained in this advance notice as a proposed rule change under Section 19(b)(1) of the Act and Rule 19b-4 thereunder. 15 U.S.C. 78s(b)(1); 17 CFR 240.19b-4. Pursuant to Section 19(b)(2) of the Act, within 45 days of the date of publication of the proposed rule change in the Federal Register or within such longer period up to 90 days if the Commission designates or the self-regulatory organization consents the Commission will either: (i) by order approve or disapprove the proposed rule change or (ii) institute proceedings to determine whether the proposed rule change should be disapproved. 15 U.S.C. 78s(b)(2)(A). See Release No. 34-68548 (December 28, 2012), 78 FR 795 (January 4, 2013).
Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549-1090.

All submissions should refer to File Number SR-DTC-2012-810. 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 advance notice that are filed with the Commission, and all written communications relating to the advance notice 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 Room, 100 F Street, NE, 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 also will be available for inspection and copying at the principal office of DTC and on DTC’s website at http://dtcc.com/downloads/legal/rule_filings/2012/dtc/Advance_Notice_SR_2012_810.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-2012-810 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

By the Commission.

Kevin M. O’Neill
Deputy Secretary