

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63775; File No. SR-DTC-2011-01)

January 26, 2011

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to Amend the Dividends Service Guide

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 January 13, 2011, 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.³ The Commission is publishing this Notice and Order to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

DTC proposes to amend its Dividends Service Guide (“Guide”) to: 1) clarify DTC’s policy of payment allocations; 2) begin allocation of funds from agents received with corresponding CUSIP-level identification information at 8:20 a.m.; and 3) make other conforming changes.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The text of the proposed rule change is attached as Exhibit 5 to DTC’s filing, which is available at www.dtcc.com/downloads/legal/rule_filings/2011/dtc/2011-01.pdf.

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 III below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.⁴

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

One of core asset services provided by the DTC is the daily collection and allocation of cash entitlements due on DTC-eligible securities. These entitlements, known as Principal and Income ("P&I") payments, include dividend, interest, periodic principal, redemption, and maturity payments arising from the 3.5 million securities eligible at DTC.

Many paying agents service more than one issue and typically wire to DTC a single "bulk" payment to be allocated to numerous issues or different types of payments for a single issue. Paying agents are required to provide with bulk payments an automated file that provides corresponding Committee on Uniform Security Identification Procedures ("CUSIP") level identification information about the wire payment.⁵ CUSIP-level detail includes the security's CUSIP, the payment amount for the CUSIP, the payable date, and the payment type (*i.e.*, dividend, interest, principal, *etc.*). The automated CUSIP-level detail allows systemic receipt and allocation of the bulk payment.

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

⁵ All paying agents are required to sign DTC's Operational Arrangements ("OA") letter agreeing to comply with the provisions of the OA, which set forth the requirements necessary for an issue to become and remain eligible for DTC Services. The OA is available on DTCC's website for agents, issuers, and any other interested parties at http://www.dtcc.com/downloads/legal/rules_proc/eligibility/operational.arrangements.mo.pdf. See also DTC Important Notice B# 1805-07 (June 29, 2007).

Funds from paying agents received with CUSIP-level identification information are allocated upon receipt beginning at 9:00 a.m. ET and continuing until 3:00 p.m. ET. Payments received without CUSIP-level detail cannot be systematically received and allocated because lack of identifying information included with the payments. In these instances, DTC has to work with the paying agent to obtain CUSIP-level details so that it can manually allocate funds to the appropriate CUSIPs. Currently, funds without corresponding CUSIP-level detail that are received by 3:00 p.m. ET by DTC are allocated at 3:15 p.m. ET using an algorithmic formula that allocates each agent's unidentified funds.

The majority of payments are sent to DTC over the Fedwire.⁶ The “cut-off” time for these allocations is generally at about 3:00 p.m. ET to permit completion of the settlement process at about 4:30 p.m. ET each day. Since the Fedwire remains open until 6:00 p.m. ET, significant volumes of expected payments are received between DTC’s allocation cut-off at 3:00 p.m. ET and the Fedwire close at 6:00 p.m. ET. On peak payment days, the volume of funds received after the allocation cut-off can represent upwards of several billion dollars (on average, about 2-4% of funds due come in after the allocation cut-off time).

Aside from those allocations where DTC has reason to believe that the related payment from the agent or issuer will not be received on the payable date, historically, DTC has allocated nearly all entitlements on their scheduled payable date, including those paid to DTC after established intraday cut-off times or received without the CUSIP level detail. Where DTC had information that payment would not be made on the payable date, DTC are allocated the payments upon receipt and identification.

Proposed Change to the Existing Practice

⁶ Some payments are sent as Automated Clearing House (ACH) transfers.

As a result of an extensive review of current policies and procedures and in consultation with its regulators, DTC has determined that the allocation of entitlements prior to funding or without CUSIP-level detail subjects DTC to potential credit and liquidity risks. For example, one such risk is that of a “double default” where after an allocation is made, the agent/issuer expected to make the payment does not do so, and the participant that received the allocation defaults before DTC can recover it. While this “allocate all” practice provides increased allocations to DTC participants, it does so at the expense of the risks described above.

In order to address these risks, DTC has been working extensively with paying agents to improve their payment timeliness and accuracy in a variety of ways. Paying agents are not provided with reports identifying various defects (for example, late, incomplete, or late and incomplete payment detail) that which should allow them to perform root cause analysis and improve their processing and performance. Additionally, DTC has worked with several larger paying agents in their conversion to an automated means of providing CUSIP-level detail. As a result of these improvements, DTC has over the last few years greatly reduced the proportion of funds received late or without appropriate CUSIP level detail (compared to 2009, 2010 allocations relating to late or unidentified payments have decreased 60% compared to 2009 – an estimated \$50 billion in 2010 compared to \$128 billion in 2009).

With risk mitigation at the forefront of market participants and regulators’ concerns and given the extensive progress that DTC and paying agents have made in improving agents’ payment practices, DTC proposes to discontinue the current “allocate all” practice and to move to a methodology that results in the allocation only of those entitlements paid before the cut-off and identified at a CUSIP-level. As a result of this proposed change in practice, DTC also

proposes to discontinue its use of the algorithmic formula to allocate unidentified funds since this calculation will no longer be necessary.

In order to accommodate the anticipated increase in funds not allocated on the payable date due to late or unidentified payments, DTC also proposes to begin allocation of funds received with corresponding CUSIP-level identification information upon receipt, beginning at 8:20 a.m. ET and continuing every 20 minutes until shortly after the 3:00 p.m. ET cut-off time. This change in time will allow for more customers to receive timely and properly identified payments on payable date.

DTC believes that the implementation of this policy eliminates the credit risk associated with DTC allocating cash entitlements to participants before such payments are received from the paying agent or issuer.

Implementation Timeframe

DTC proposes to implement the changes set forth in this filing on February 7, 2011. DTC participants, paying agents, and other financial intermediaries were first notified of this intended change through DTCC's publication of a White Paper to the Industry in November 2009.⁷ In order to ensure widespread awareness and minimize the service impact to customers, DTC undertook in 2010 a number of initiatives aimed at paying agents in order to prepare them for the implementation of these changes. First, an Industry Task Force was established to ensure collaboration and a voice for key stakeholders and industry constituencies as the policy moved forward.⁸ DTC also sponsored educational tools to update paying agents and participants alike

⁷ The White Paper can be found at http://www.dtcc.com/downloads/leadership/whitepapers/Payment_Refinement.pdf.

⁸ The Industry Task Force consisted of the following entities: Association of Global Custodians, American Bankers Association, Asset Managers Forum, Bank of America LaSalle, Bank of America Merrill Lynch, Bank of NY Mellon, Bank Depository User

about the upcoming changes to the allocation policy.⁹ Finally, DTC gave numerous platform presentations and updates to the following groups: Operations Advisory Committee, ISITC, ABA Corporate Trust Committee, SIFMA DTC Education Conference, SIFMA Operations & Regulatory Committee, SIFMA Asset Managers Forum, and DTC's Asset Services, Settlement and Securities Processing Advisory Boards.

The industry has been advised of the Industry Task Force's and DTC's progress in improving DTC's P&I payment process and the implementation date of the proposed rule changes through the issuance of Important Notices that were published on the DTCC website.¹⁰

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

Group, Brown Bros. Harriman, Citibank, Computershare, Deutsche Bank, Edward Jones, Government Finance Officers Association, Goldman Sachs, JP Morgan Chase, M&I Bank, Morgan Stanley, NFS (Fidelity Institutional), SIFMA, The Clearing House, U.S. Bank, and Wells Fargo. This Task Force held meetings in February, April, May, June, July, September, November, and December 2010.

⁹ Pursuant to the release of the White Paper, DTC customers requested a tool that would help measure the impact of the proposed change at a participant level and identify current allocations occurring in a manner that was not consistent with the proposed methodology. In response to this request and effective January 22, 2010, DTC developed and delivered two weekly reports – “CSH DIV - Imprecise Allocations” (e.g., dividends, interest, pro-rata principal) and “CSH RED - Imprecise Allocations” (i.e., calls, maturities, redemptions) that included all “imprecise” or noncompliant allocations for the given week. The reports were grouped by allocation day and sorted by CUSIP allowing participants to measure the impact of imprecise allocations as well as build a history of noncompliant CUSIPs to assist in driving allocation decisions. DTC then developed and put into place P&I Agent Payment Performance reports which provided agent-specific payment performance data and defects (e.g., late payments, missing detail) to agents. DTC identified target agents (i.e., those with late or unidentified payments) and tracked performance. Approximately 4,000 agents were provided targeted feedback on specific process deficiencies (late or unidentified payments) in 2010. DTC also created and maintained a dedicated electronic mailbox for communicating en masse with paying agents. DTC contacted the vast majority of the approximately 7,000 different issuers and agents making entitlement payments to DTC to aid in the awareness of the P&I allocation refinement.

¹⁰ See DTCC Important Notice 6132-10 (January 15, 2010); DTC Important Notice #7045-10 (August 2, 2010); DTC Important Notice #7659-10 (November 22, 2010).

DTC does not believe that the proposed rule change would 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. 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-2011-01 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 submission should refer to File Number SR-DTC-2011-01. 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-1090, 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 Web site at

http://www.dtcc.com/downloads/legal/rule_filings/2011/dtc/2011-01.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-2011-01 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

For the reasons stated below, 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.¹¹ Specifically, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act which 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, to assure the safeguarding of securities and funds of DTC's participants which are in the custody and control of the clearing agency, and to remove impediments to and perfect the mechanism of a national system for prompt and accurate clearance and settlement of securities transactions.¹²

¹¹ In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹² 15 U.S.C. 78q-1(b)(3)(F).

As described in this filing, DTC's "allocate all" methodology subjects DTC, its participants, and beneficial owners to inherent. An in-depth study conducted internally by DTC at the request and recommendation of regulators has resulted in its decision to eliminate the "allocate all" policy. Accordingly, the Commission finds that the rule change is consistent with Section 17A(b)(3)(F) of the Act because it should allow DTC to reduce risks associated with its current P&I payment process, which in turn, should enable DTC to better safeguard the funds and securities which are in DTC's custody and control.

DTC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after publication of notice of filing thereof in the Federal Register. As discussed above, approval of the proposal will allow DTC to immediately cease its current "allocate all" P & I payment policy and implement a policy that reduces risk for DTC, its participants, paying agents, and other financial intermediaries associated with P&I allocations. Furthermore, in anticipation of implementation of these changes, DTC's participants and paying agents have already taken the necessary steps to code their systems for February 7, 2011, implementation date. Change in this implementation date could cause significant system disruptions at these participants and paying agents. As such, the Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice filing in the Federal Register.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the

proposed rule change (SR-DTC-2011-01) is approved on an accelerated basis.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹³

Elizabeth M. Murphy
Secretary

¹³ 17 CFR 200.30-3(a)(12).