

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66630; File No. SR-DTC-2012-02)

March 20, 2012

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Amend Rules Relating to the Issuance of and Maturity Presentment Processing for Money Market Instruments

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 8, 2012, 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. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The purpose of DTC’s proposed rule change is to amend DTC’s Settlement Service Guide to change certain deadlines associated with processing issuances and maturity presentments of money market instruments.<sup>3</sup>

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

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 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/2012/dtc/2012-02.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2012/dtc/2012-02.pdf).

rule change. 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), (B), and (C) below, of the most significant aspects of these statements.<sup>4</sup>

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

The Maturity Presentment<sup>5</sup> processing for money market instruments (“MMIs”) is initiated automatically by DTC each morning for all of the MMIs maturing that day. The automatic process electronically sweeps all maturing positions of MMI CUSIPs from a participant’s accounts against credits in the amount of the payments to be received with respect to such presentments. The matured MMIs are delivered to the applicable issuing or paying agent (“IPA”),<sup>6</sup> also a DTC participant, the IPA's account is debited for the amount of the maturity proceeds. The debited amount will be included in the IPA’s net settlement amount. Similarly, the credits of participants that presented maturing MMIs will be included in those participants’ net settlement amount.

MMI issuers and IPAs commonly view the primary source of funding for payments of MMI maturity presentments as flowing from new issuances of MMIs in the same program by that MMI issuer on that day. If the MMI issuer issues more new MMIs than the number of

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<sup>4</sup> The Commission has modified the text of the summaries prepared by DTC.

<sup>5</sup> The term “Maturity Presentment” is defined in Rule 1 of DTC’s Rules and Procedures as a Delivery Versus Payment of matured MMI securities from the account of a presenting participant to the designated paying agent account for that issue as provided for in Rule 9(C) and as specified in DTC’s procedures.

<sup>6</sup> Rule 1 of DTC’s Rules and Procedures defines the term “MMI Issuing Agent” generally as a participant acting as an issuing agent for an issuer with respect to a particular issue of MMI securities of that issuer and an “MMI Paying Agent” generally as a participant acting as a paying agent for an issuer with respect to a particular issue of MMI securities of that issuer. Since MMI Issuing Agents and MMI Paying Agents are often a single entity, this filing refers to both entities collectively as “IPAs.”

MMIs maturing, there would be no net funds payment to the IPA on that day. When an issuer has more maturing MMIs than new issuances, it will have an obligation to pay to the IPA the net amount of the MMIs maturing that day over the new issuance. When net maturity presentments exceed issuances on a day, IPAs at their discretion may provide significant intraday credit to issuers for the excess. However, the IPA as an agent of an issuer is not obligated to fund the presentments unless payment is received from the issuer.

The business relationships between IPAs and their MMI issuers play a key role in determining if an IPA will execute a refusal to pay at DTC with respect to an MMI issuance. Because maturity presentments of an issuer's MMIs for which the IPA acts are processed automatically and randomly against the IPA's account, IPAs are permitted to refuse to pay for all of an issuer's maturities in an MMI program.<sup>7</sup> An IPA that refuses payment on an MMI maturity must communicate its intention to DTC using the DTC Participant Terminal/Browser Service (PTS/PBS) MMRP function. This communication, referred to as an Issuer Failure/Refusal to Pay ("RTP"), allows the Paying Agent to enter a refusal to pay instruction for a particular issuer up to 3:00 p.m. Eastern Time ("ET") on the date of the affected maturity presentment. Such an instruction causes DTC to reverse all transactions related to any new issuances in that issuer's program, including the maturity presentments. An IPA RTP may have a significant market impact on the issuer's reputation and credit standing.

In late 2009, DTC and the Securities Industry and Financial Markets Association ("SIFMA") formed the MMI Blue-Sky Task Force ("Task Force") to address systemic and unique market risks associated with the MMI process, including those related to DTC's maturity

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<sup>7</sup> DTC employs a four-character acronym to designate an issuer's MMI program. An issuer can have multiple acronyms. The IPA uses the acronym(s) when submitting an instruction of its refusal to pay for a given issuer's program(s).

presentment processing. The Task Force, along other money market industry members,<sup>8</sup> determined that DTC's current MMI processing schedule permits issuance and other transaction activity that can affect an issuer's net funding amount or proceeds after the 3:00 P.M. E.T. deadline for RTP instructions.<sup>9</sup> Accordingly, DTC is proposing to amend certain provisions in its Settlement Service Guide in order to provide increased transparency for IPAs before the 3:00 P.M. RTP deadline, which should in turn assist IPAs in making better informed credit decisions when an issuer has more maturities than issuances.<sup>10</sup> The proposed changes to DTC's Settlement Service Guide include:

1. Making all MMI issuance and deliver order transactions subject to DTC's Receiver Authorized Delivery ("RAD") function for approval regardless of transaction value.<sup>11</sup>

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<sup>8</sup> The other MMI related industry members include the Commercial Paper Issuers Working Group, which is comprised of both bank and corporate commercial paper issuers, and the Asset Managers Forum, whose whole membership is buy-side investors.

<sup>9</sup> The Task Force's short-term recommendations focused on addressing the credit risk exposure that IPAs face because of a lack of transparency around the amount an issuer must fund to cover its maturities. The recommendations called for funding maturities by 1:00 P.M. if there is a net debit and for establishing new deadlines of 1:30 P.M. for the submission of all new valued issuance to DTC and of 2:15 P.M. for receivers of new valued issuance to accept delivery. By implementing these new deadlines, the IPA should have sufficient time to calculate its exposure and if a funding shortfall exists work with the issuer to resolve the deficiency before 3:00 P.M., which is the deadline at DTC for the IPA to fund the maturities or to issue an RTP. For more information, see DTCC Press Release "DTCC and SIFMA Release Task Force Report Identifying Opportunities to Mitigate Systemic and Credit Risk in Processing of Money Market Instruments" (March 31, 2011), which can be found at [www.dtcc.com/news/press/releases/2011/dtcc\\_sifma\\_task\\_force\\_report.php](http://www.dtcc.com/news/press/releases/2011/dtcc_sifma_task_force_report.php).

<sup>10</sup> In addition to the changes described in this filing, DTC is also making unrelated technical changes to its Settlement Service Guide in order to conform its rules to current practice and to a prior rule filing, SR-DTC-2011-01, approved in January 2011. Securities Exchange Release Act No. 34-63775 (January 26, 2011), 76 FR 5843 (February 2, 2011).

<sup>11</sup> This change will eliminate the ability for a receiver to "force" a reclaim upon an IPA close to or after the 3:00 P.M. RTP cutoff that would alter the amount of funding an issuer needs to provide late in the day and would also eliminate matched reclaims that currently override participant risk management controls.

2. Adjusting the MMI valued new issuance cut-off time from 3:20 P.M. E.T. to 2:00 P.M. E.T.
3. Creating a new MMI RAD approval of new valued issuance transactions at 2:45 P.M. E.T. instead of 3:30 P.M. E.T.<sup>12</sup>

DTC is proposing to implement the changes described above on the date the proposed rule change is approved.

DTC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC because the earlier cutoffs and the elimination of MMI matched reclaims should reduce potential late day reversals due to non-payment instructions from IPAs, which should in turn allow IPAs to determine before the 3:00 P.M. RTP deadline if there is a funding shortfall with respect to an issuer. Additionally, the changes to the Settlement Service Guide, as proposed, should serve to reinforce consistent MMI business practices by implementing earlier deadlines for issuances processing and receiver approvals. DTC expects these proposed changes to make the processing of MMI issuances and maturities more efficient. Finally, the proposed rule change is consistent with the CPSS/IOSCO Recommendations for Securities Settlement Systems applicable to DTC.

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

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

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<sup>12</sup> If a transaction is not approved in RAD by 2:45 P.M. E.T., the transaction will drop and will need to be resubmitted.

The proposed rule change was developed in consultation with the Task Force and other securities industry organizations. 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. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within forty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

### IV. 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](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2012-02 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-2012-02. 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 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 website 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 website at [http://www.dtcc.com/downloads/legal/rule\\_filings/2012/dtc/2012-02.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2012/dtc/2012-02.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-2012-02 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Kevin M. O'Neill  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).