

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71886; File No. SR-DTC-2014-04)

April 7, 2014

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Effect Changes to the DTC Settlement Service Guide Relating to the Automated Customer Account Transfer Service of National Securities Clearing Corporation

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 28, 2014, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change 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 proposed rule change from interested persons.

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

The proposed rule change consists of conforming changes to the DTC Settlement Service Guide (the “Guide”)<sup>3</sup> with respect to proposed changes in the Automated Customer Account Transfer Service (“ACATS”) of its affiliate, National Securities Clearing Corporation (“NSCC”).<sup>4</sup>

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

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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 Guide is available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.ashx>.

<sup>4</sup> Terms not defined herein have the meaning set forth in DTC’s Rules & Procedures (the “Rules”) available at <http://www.dtcc.com/en/legal/rules-and-procedures.aspx>.

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

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

1. Purpose

*i. Background*

ACATS is an NSCC service that interfaces with DTC for the delivery of customer<sup>5</sup> securities from the account of one DTC Participant (that is also an NSCC Member) to another DTC Participant (that is also an NSCC Member). NSCC has proposed a redesign of ACATS (under NSCC rule filing SR-NSCC-2014-04, the "NSCC Proposal") which, if approved, will require conforming changes to DTC's Procedures. Under the NSCC Proposal, customer account transfers with respect to two types of DTC-eligible securities will be processed through a new NSCC accounting operation (to be known as the "ACATS Settlement Accounting Operation") on an ACATS Settlement Date (as defined therein).

The key provision of the NSCC Proposal impacting DTC is that ACATS transactions will no longer have an associated incentive charge in NSCC's system so that such an ACATS transfer will have no related funds settlement risk to either NSCC or DTC. In this regard, ACATS transfers will be entirely free of payment on the books of DTC. Accordingly, DTC proposes to change its procedures set forth in the Guide as described below. The proposal also includes

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<sup>5</sup> For purposes of this rule filing, "customer" refers to an accountholder of a DTC Participant whose account is transferred to another DTC Participant by an ACATS transaction.

clarifications in the Guide with respect to the protection of customer securities processed through ACATS.

ii. *Proposed DTC Rule Changes*

*Elimination of Short Cover Charge*

An “ACATS short cover charge” is a dollar amount guaranteed by NSCC to DTC for the value of securities delivered from a Participant’s DTC account to NSCC for processing by NSCC through its Continuous Net Settlement system (“CNS”). Because ACATS transfers will be entirely free of payment under the NSCC proposal as described above, a provision in the Guide relating to the processing of “ACATS short cover charges” will be deleted, with related adjustments to references to the DTC Collateral Monitor.<sup>6</sup>

*Long Allocations*

At NSCC, under current rules, long allocations of securities made via CNS may be reversed if the NSCC Member receiving the securities fails to meet its NSCC money settlement obligation. Because ACATS transactions will not generate any funds settlement obligations, this reversal is eliminated. The provision in the Guide describing the NSCC reversal will be deleted.

*Memo Seg Optionality*

Memo Seg is a systemic mechanism that allows Participants to prevent inventory that is not subject to a lien or claim of DTC (“Minimum Amount” or “MA”) from falling below a

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<sup>6</sup> These adjustments reduce a Participant’s Collateral Monitor with respect to its net ACATS short positions on at the start of ACATS settlement date. The Participant then receives credit in its Collateral Monitor for ACATS deliveries as they occur throughout the day.

certain number of units.<sup>7</sup> In order to extend the Memo Seg option to securities received in ACATS transfers, the Guide would be revised to provide that a Participant may increase its number of units designated for protection under Memo Seg to reflect ACATS receipts.<sup>8</sup>

#### *Clarification with Respect to MA Securities*

ACATS transfers are not subject to any lien or claims by DTC because they are transferred free of payment on the books of DTC. Upon receipt into a Participant account, the securities constitute MA securities pursuant to the Rules.<sup>9</sup> The Guide uses the term “Deemed MA” to reflect this condition. This terminology is no longer necessary because, under the NSCC Proposal, no funds obligations attach to the ACATS transaction. Accordingly, the term “Deemed MA” will be deleted from the Guide; a new section of the Guide will confirm that ACATS securities received by a Participant will, by virtue of this transfer, be credited to the receiving account as MA.<sup>10</sup>

#### *Other Clarifications*

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<sup>7</sup> Memo Seg is offered by DTC to its Participants to support their control of fully-paid customer securities, although its effectiveness for that purpose depends entirely on the Participant’s management of its accounts.

<sup>8</sup> Please see the Guide for additional information regarding Memo Seg under the “Memo Segregation” section available at [www.dtcc.com](http://www.dtcc.com).

<sup>9</sup> Securities received through the ACATS Settlement Accounting Operation are not counted as part of the Participant’s Collateral Monitor, unless and until the receiving Participant, in accordance with the Rules, designates those securities as Net Additions (NA).

<sup>10</sup> In this regard, a Participant accepting an ACATS free delivery automatically designates the subject securities as MA securities, not subject to any lien or claim of DTC. Therefore, such securities are not counted in the Collateral Monitor of the Participant. It should be noted that the Participant may re-designate the securities as NA or deliver them versus payment in which case these securities would be counted in the Collateral Monitor.

The Guide will be revised to clarify the descriptions of CNS Short Covers and Long Allocations and their effect on Participant collateral and the Collateral Monitor.

*iii. Implementation Timeframe*

The effective date of the proposed Rule change will be announced via a DTC Important Notice and will be implemented concurrently with the implementation by NSCC of the ACATS enhancements, if approved.

2. Statutory Basis

The proposed rule change provides for enhancements relating to the processing of customer securities which would support finality of transfers of customer securities. Therefore, DTC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC, in particular Section 17A(b)(3)(F)<sup>11</sup> of the Act which requires that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.

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

DTC believes that the proposed rule change would not impose any burden on competition as it applies to all Participants that utilize the ACATS service and the new process has been developed in close coordination with the industry.

(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 yet been solicited or received with respect to this filing.

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<sup>11</sup> 15 U.S.C. 78q-1(b)(3)(F).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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 such 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 No. SR-DTC-2014-04 on the subject line.

Paper Comments:

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

All submissions should refer to File No. SR-DTC-2014-04. 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 Room, 100 F Street, NE, Washington, DC 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/legal/sec-rule-filings.aspx>. 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 No. SR-DTC-2014-04 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>12</sup>

Kevin M. O'Neill  
Deputy Secretary

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