

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72576; File No. SR-DTC-2014-06)

July 9, 2014

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Modify the Receiver Authorized Deliver and Reclaim Processing Value Limits by Transaction

I. Introduction

On May 30, 2014, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2014-06 (“Proposed Rule Change”) 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> The Proposed Rule Change was published for comment in the Federal Register on June 5, 2014.<sup>3</sup> The Commission did not receive any comments on the Proposed Rule Change. This order approves the Proposed Rule Change.

II. Description

DTC filed the Proposed Rule Change to modify its Rules, By-Laws, and Organization Certificate (“Rules”) to lower limits against which valued Deliver Orders (“DOs”) and Payment Orders (“POs”)<sup>4</sup> will be required to be accepted for receipt (i.e., “matched” for settlement) via

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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> Securities Exchange Act Release No. 72283 (May 30, 2014), 79 FR 32599 (June 5, 2014).

<sup>4</sup> A DO is a book-entry movement of a particular security between two DTC participants (“Participants”). A PO is a method for settling funds related to transactions and payments not associated with a DO. For purposes of this Proposed Rule Change, the defined term “DOs” includes all valued DOs except for DOs of: (i) Money Market Instruments (“MMI”) and (ii) institutional delivery (“ID”) transactions affirmed through Omgeo, both of which are not impacted by the Proposed Rule Change.

DTC's Receiver Authorized Delivery ("RAD") process. With the Proposed Rule Change, DTC seeks to reduce the intraday uncertainty that may arise from reclaim transactions linked to DOs and POs and any potential credit and liquidity risk from such transactions.

Currently, as set forth in the DTC Settlement Service Guide ("Guide"), valued DOs and POs, excluding DOs of MMIs and ID transactions, in amounts above \$7.5 million and \$500,000, respectively, are subject to the RAD process, which allows a receiver of DOs and/or POs ("Receiver") to review and reject transactions that it does not recognize prior to DTC's processing of the transaction.<sup>5</sup> In contrast, lower valued DOs and POs do not require the Receiver's acceptance prior to processing. Instead, if the Receiver does not recognize a DO or PO it has received, the DO or PO may be returned by the Receiver to the original deliverer of the DO or PO ("Deliverer") in a reclaim transaction ("Reclaim"). While both the Reclaim and RAD functionalities allow a Receiver to exercise control over which transactions to accept, Reclaims tend to create uncertainty because transactions may be returned late in the day, when the Deliverer may have limited options to respond. Because Reclaims are permitted without regard to DTC's risk management controls, a Deliverer that is subject to a Reclaim may incur a greater settlement obligation than otherwise anticipated, increasing credit and liquidity risk to the Deliverer and to DTC.<sup>6</sup>

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<sup>5</sup> In 2013, DTC took an initial step to address this uncertainty by lowering the RAD threshold over which transactions must be matched for DOs and POs from \$15 million and \$1 million, respectively, to the current limits mentioned above. Securities Exchange Act Release No. 69985 (July 12, 2013); 78 FR 42991 (July 18, 2013) (SR-DTC-2013-04).

<sup>6</sup> DTC's risk management controls, including Collateral Monitor and Net Debit Cap, are designed so that DTC can effect system-wide settlement notwithstanding the failure to settle of the largest DTC Participant or affiliated family of Participants. The Collateral

Pursuant to the Proposed Rule Change, DTC will revise the Guide to reflect that: (i) with respect to valued DOs, DTC will lower the RAD threshold to \$.01 via a three-phase reduction as described below, and (ii) with respect to POs, DTC will reduce the RAD threshold to zero immediately upon implementation of the Proposed Rule Change. As such, in the first phase of implementation of the Proposed Rule Change, DTC will reduce the RAD threshold for DOs to \$100,000. In the second phase, the RAD threshold for valued DOs will be reduced to \$20,000. In the third phase, the RAD threshold for DOs will be reduced to \$.01. In addition, to further promote finality of settlement, new issues will no longer be exempt from RAD.

Also, the Guide will be updated to reflect that certain DO and PO functions will no longer be accessible through DTC's Participant Terminal System. Instead, such functions will be accessible through a DTC web application known as "Settlement Web." Further, the Guide will be updated via a technical change to clarify that the RAD threshold for institutional transactions remains at \$15 million, rather than at the \$7.5 million amount currently in effect for non-institutional transactions. Finally, the Guide will be revised to remove a provision that overvalued deliveries are automatically routed to RAD, as this section will become redundant upon implementation of the Proposed Rule Change since all DOs will be subject to RAD.

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Monitor tests that a Participant has adequate collateral to secure the amount of its net debit balance so that DTC may borrow funds to cover that amount for system-wide settlement if the Participant defaults. See DTC Rules, [http://dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.ashx](http://dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.ashx). The Net Debit Cap limits the net debit balance a Participant can incur so that the unpaid settlement obligation of the Participant, if any, cannot exceed available DTC liquidity resources. Id.

The effective date of the Proposed Rule Change, including the dates of the implementation phases described above, will be announced via a DTC Important Notice.<sup>7</sup>

### III. Discussion

Section 19(b)(2)(C) of the Act<sup>8</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act 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.<sup>9</sup> In addition, Rule 17Ad-22(d)(12) of the Act requires that a clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure that final settlement occurs no later than the end of the settlement day and require that intraday or real-time finality be provided where necessary to reduce risks.<sup>10</sup>

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<sup>7</sup> For purposes of taking into account the incremental implementation of the Proposed Rule Change as described above, beginning on an implementation date that shall be announced via DTC Important Notice (“Initial Implementation Date”) DTC will lower the RAD limit for non-institutional DOs to \$100,000 and POs to zero. From a date that is approximately two weeks following the Initial Implementation Date and that shall be announced by Important Notice, until a date that is approximately six weeks following the Initial Implementation Date and that shall be announced by Important Notice, DTC will lower the RAD limit for non-institutional DOs to \$20,000. From a date that is approximately six weeks following the Initial Implementation Date and that shall be announced by Important Notice, DTC will lower the RAD limit for non-institutional DOs to \$.01.

<sup>8</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>10</sup> 17 CFR 240.17Ad-22(d)(12).

The Commission finds the Proposed Rule Change is consistent with the Act. More specifically, as the Proposed Rule Change pertains to the lower RAD threshold for non-institutional transactions, the resulting limit on Reclaim transactions, and the removal of the new issue exemption, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act<sup>11</sup> because it will increase the number of deliveries that will require Receiver approval prior to DTC processing, which reduces the intraday uncertainty and associated risks that may arise from Reclaims, thus facilitating the prompt and accurate clearance and settlement of securities transactions. The Commission also finds these aspects of the Proposed Rule Change consistent with Rule 17Ad-22(d)(12) of the Act<sup>12</sup> because more transactions will be subject to DTC's risk management controls, which helps ensure that final settlement occurs no later than the end of the settlement day.

Additionally, the Commission finds the Proposed Rule Change, as it pertains to changes to DTC's Participant Terminal System and Settlement Web services, the RAD threshold for institutional transactions, and overvalued deliveries, consistent with both Section 17A(b)(3)(F) of the Act<sup>13</sup> and Rule 17Ad-22(d)(12) of the Act<sup>14</sup> because specifying the application through which Participants may access certain settlement functions, clarifying the RAD threshold of institutional transactions, and eliminating redundant provisions promotes the prompt and accurate clearance and settlement of securities transactions and improves DTC's written policies

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

<sup>12</sup> 17 CFR 240.17Ad-22(d)(12).

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>14</sup> 17 CFR 240.17Ad-22(d)(12).

and procedures that are designed to ensure final settlement no later than the end of the settlement day.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>15</sup> and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR-DTC-2014-06 be, and hereby is, APPROVED.<sup>16</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>15</sup> 15 U.S.C. 78q-1.

<sup>16</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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