

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83511; File No. SR-DTC-2018-005)

June 25, 2018

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the DTC Operational Arrangements to Add Clarifying Text Relating to the Processing of Unit Investment Trust Securities through the DTC Investor's Voluntary Redemptions and Sales Service

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 June 20, 2018, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change<sup>3</sup> consists of proposed modifications to the DTC Operational Arrangements (Necessary for Securities to Become and Remain Eligible for DTC Services) ("OA")<sup>4</sup> to provide enhanced transparency within DTC's Procedures<sup>5</sup>

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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> Each capitalized term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of The Depository Trust Company ("Rules"), available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf).

<sup>4</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/issue-eligibility/eligibility/operational-arrangements.pdf>.

relating to requirements for Securities issued by unit investment trusts (“Units”) to be processed through DTC’s Investor’s Voluntary Redemptions and Sales Service (“IVORS”), as described below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency 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. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change consists of proposed modifications to the OA to provide enhanced transparency within the DTC Procedures relating to DTC’s requirements for Units to be processed through IVORS, as discussed below.

Background

A unit investment trust is an investment company that buys and holds a generally fixed portfolio of stocks, bonds or other securities for a fixed period of time. Units are sold by a sponsor, which is the issuer of the Units, to investors who receive a share of principal and dividends, or interest. When Units mature, an investor may redeem

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<sup>5</sup> Pursuant to the Rules, the term “Procedures” means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 3, at 13.

matured Units with the transfer agent for the Units, or sell Units to the sponsor for a cash payment (such redemptions and sales jointly referred to herein as “Redemptions”).<sup>6</sup> The sponsor may also allow a holder of maturing Units to “roll over” the Units by redeeming the maturing Units for a comparable issue of Units (“Rollover”).

Units that meet DTC’s eligibility requirements<sup>7</sup> may be Deposited for book-entry services at DTC and be held by Participants on behalf of investors. Redemptions and Rollovers of Units held at DTC must be processed through IVORS.<sup>8</sup> IVORS allows a Participant to surrender Units for value via book-entry, which Units are processed in accordance with standing instructions (“Standing Instructions”) provided by the sponsor or transfer agent for the Units through DTC’s Participant Terminal System (“PTS”),<sup>9</sup> an electronic interface that allows Participants to submit instructions to DTC and make inquiries in DTC’s system. The transfer agent and the sponsor must each maintain a DTC Participant Account in order to facilitate the settlement of Redemptions.<sup>10</sup>

In this regard, and as approved in the 1998 Release, in order to be eligible for processing through IVORS, (i) Units must be DTC-eligible and held in DTC’s FAST

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<sup>6</sup> See Securities Exchange Act Release No. 39852 (April 10, 1998), 63 FR 19545 (April 20, 1998) (“1998 Release”).

<sup>7</sup> See OA, supra note 4 at 1-3 (setting forth requirements for Securities to be made eligible for DTC book-entry services).

<sup>8</sup> See OA, supra note 4 at 43-44.

<sup>9</sup> See 1998 Release, supra note 6, and Securities Exchange Act Release No. 50279 (August 27, 2004), 69 FR 54169 (“2004 Release”).

<sup>10</sup> See id.

program,<sup>11</sup> (ii) the transfer agent, which is the Fast Agent for the Units, must be a DTC Participant and (iii) the sponsor, or the sponsor's clearing agent, i.e., a Participant that acts on the sponsor's behalf with respect to the settlement of transactions in Units issued by the sponsor, must be a DTC Participant ("IVORS Eligibility Requirements").<sup>12</sup>

As indicated above, the OA currently states the requirement that IVORS must be used for the processing of Redemptions and Rollovers for Units held at DTC. The applicable OA text does not include references to requirements relating to IVORS processing that were approved in the 1998 and 2004 Releases, in particular, (i) the use of Standing Instructions by a sponsor and/or FAST Agent<sup>13</sup> and (ii) the IVORS Eligibility Requirements.<sup>14</sup> Pursuant to this rule filing, in order to provide enhanced transparency within the OA to users of DTC services with regard to the use of IVORS for the processing of Redemptions and Rollovers, DTC proposes to amend the OA to include text stating these requirements.

In addition, currently existing text in the OA relating to the processing of Units uses the term "UIT" interchangeably to describe both a unit investment trust and Units. In order to further enhance the transparency of the text of the Subject Section, as defined below, to more clearly distinguish between unit investment trusts and the securities issued by them, DTC would revise the applicable OA text to define Securities issued by

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<sup>11</sup> DTC's FAST program allows a transfer agent which is approved by DTC to be a "FAST Agent" to act as custodian for DTC and increase or decrease the amounts of a balance certificate representing Securities eligible for DTC book-entry services. See OA, supra note 4 at 15.

<sup>12</sup> See 1998 Release, supra note 6.

<sup>13</sup> See supra note 9.

<sup>14</sup> See supra note 12.

unit investment trusts as “Units.” The text would continue to refer to unit investment trusts as UITs.

#### Proposed Changes to the OA

Pursuant to the proposed rule change, DTC would amend the OA to revise Section VI. C. 1. a. (Use of DTC’s Investor’s Voluntary Redemptions and Sales to sponsor) (“Subject Section”), relating to Redemption and Rollover processing through IVORS, to add text stating (i) the IVORS Eligibility Requirements and (ii) a provision relating to the processing of Redemptions and Rollovers in accordance with Standing Instructions provided by the sponsor or FAST Agent for the Units, as described above. Specifically, the proposed rule change would add the following within the existing text of that section as it relates to the description of Redemption and Rollover activities:

“IVORS will only be available for these activities if (1) the subject Unit is DTC-eligible, (2) the subject Unit is held through the FAST program, (3) the FAST Agent for the Unit is a Participant of DTC, and (4) the Unit’s lead sponsor or its clearing agent is a Participant. Redemptions and rollovers are processed in accordance with standing instructions provided by the FAST Agent and/or sponsor of the Unit through PTS.”

In addition, DTC would revise the text of the Subject Section to define Securities issued by unit investment trusts (i.e., Units, as defined above) as “Units,” as described above.

#### Effective Date

The proposed rule change would become effective upon filing with the Commission.

2. Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (“Act”)<sup>15</sup> requires that the rules of the clearing agency be designed, inter alia, to promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the proposed rule change is consistent with this provision of the Act because by adding text within the Procedures set forth in the OA regarding DTC’s requirements for the processing of Redemptions and Rollovers of Units through IVORS and more clearly distinguishing in the text of the Subject Section between unit investment trusts and Units, the proposed rule change would provide enhanced transparency for Participants with respect to the Procedures relating to such processing, including better facilitating Participants’ understanding of the requirements relating to the processing of Units held by them at DTC. Therefore, by providing Participants with enhanced transparency with regard to the Procedures relating to the processing of Redemptions and Rollovers of Units through IVORS, and therefore facilitating Participants ability to understand the requirements relating to the processing of Units held by them at DTC, DTC believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions consistent with the Act.

(B) Clearing Agency’s Statement on Burden on Competition

DTC does not believe that the proposed rule change would have any impact on competition. The proposed rule change would merely provide enhanced transparency with respect to existing Procedures relating to the processing of Redemptions and

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

Rollovers through IVORS by adding text to the OA that is consistent with requirements previously approved by the Commission.<sup>16</sup> Therefore, the proposed rule change would not affect the rights or obligations of Participants, and as such, would not impact competition.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to this 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>18</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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:

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<sup>16</sup> See supra note 9.

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f).

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-2018-005 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-DTC-2018-005. 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 the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information



from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2018-005 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>19</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).