

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50025; File No. SR-DTC-2004-04)

July 15, 2004

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change to Establish a Valued Delivery Order Interface with the National Securities Clearing Corporation

I. Introduction

On May 3, 2004, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change File No. SR-DTC-2004-04 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ Notice of the proposed rule change was published in the Federal Register on June 2, 2004.² No comment letters were received. For the reasons discussed below, the Commission is now granting approval of the proposed rule change.

II. Description

The National Securities Clearing Corporation (“NSCC”) currently creates receive and deliver instructions for “Balance Order Securities” and for “Special Trades” which NSCC members then have to manually enter into DTC as “Valued Delivery Orders” (“VDOs”).³ In connection with NSCC’s project to update and revise its Continuous Net Settlement (“CNS”)

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 34-49777 (May 26, 2004), 69 FR 31149.

³ The terms Balance Order Securities and Special Trades are defined in Rule 1 of NSCC’s Rules and Procedures. The term Valued Delivery Order refers to an order to deliver securities where delivery is to be made for payment as opposed to a Free Delivery which refers to an order to deliver securities free of any payment by the receiver.

system (“CNS Rewrite”), NSCC requested DTC to establish an interface to automate and facilitate the processing and book-entry settlement of Balance Orders and Special Trades.⁴

DTC and NSCC currently have an automated VDO municipal bond interface known as the PDQ Automated Municipal Bond Settlement Facility (“PDQ Facility”). Pursuant to the PDQ Facility, NSCC members and NSCC municipal comparison only members (“MCOMs”) that are also DTC participants (“common participants”) or that clear through DTC participants may authorize NSCC to send to DTC their compared municipal bond transaction data in an automated file and may authorize DTC to accept and input such data as VDOs.

As a result of requests from common participants and based upon DTC’s and NSCC’s positive experience with the PDQ Facility, DTC and NSCC will expand the PDQ Facility to include all NSCC Balance Orders and Special Trades. The VDO Interface will automatically convey from NSCC to DTC VDO instructions for each common participant’s Balance Orders and Special Trades pursuant to standing instructions given to NSCC by the common participant. For NSCC MCOMs that are not common participants, NSCC will create delivery versus payment VDO instructions for a MCOM’s Special Trades if both the MCOM and its DTC clearing broker have each provided standing instructions to process such trades through the VDO Interface. The VDO Interface will incorporate the PDQ Facility’s functionality and will replace

⁴ The Commission recently approved NSCC’s CNS Rewrite. Securities Exchange Act Release No. 50026 (July 15, 2004) [File No. SR-NSCC-2004-01].

the PDQ Facility.⁵ DTC intends to implement the proposed rule change in conjunction with the implementation of NSCC's CNS Rewrite on or about August 6, 2004.⁶

III. Discussion

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.⁷ The Commission finds that DTC's proposed rule change is consistent with this requirement because VDO Interface being established will promote the prompt and accurate clearance and settlement of securities transactions by providing greater efficiency in the processing and book-entry settlement of Balance Orders and Special Trades by providing greater functionality and by allowing members to focus less attention on exception processing.

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 Section 17A of the Act and the rules and regulations thereunder.

⁵ Telephone conversation between Diane L. Brennan, Director of Risk Management, DTC, and staff of the Division of Market Regulation, Commission (May 21, 2004).
Supplemented by letter from Diane L. Brennan, DTC (May 27, 2004).

⁶ The date for implementation in the Notice has been adjusted. E-mail from Diane L. Brennan, DTC (June 23, 2004).

⁷ 15 U.S.C. 78q-1(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (File No. SR-DTC-2004-04) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland
Deputy Secretary

⁸ 15 U.S.C. 78s(b)(2).

⁹ 17 CFR 200.30-3(a)(12).