

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-52123; File No. SR-DTC-2005-07)

July 26, 2005

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change Relating to an Expansion of DTC's Inventory Management System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on July 8, 2005, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") and on July 8, 2005, amended 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 parties.

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

DTC is seeking to expand its Inventory Management System ("IMS") to offer additional customized transaction recycling capabilities and to provide users with an enhanced approval mechanism in order to give a user greater internal control over deliveries that they submit to DTC.<sup>2</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 rule change. The text of these statements may be examined at the places specified in Item IV below.

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

<sup>2</sup> For additional information on DTC's IMS processing, see Securities Exchange Act Release Nos. 47826 (May 9, 2003), 68 FR 27876 (May 21, 2003) [File No. SR-DTC-2002-19] and 50690 (November 18, 2004), 69 FR 69433 (November 29, 2004) [File No. SR-DTC-2004-10].

DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>3</sup>

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

The purpose of the proposed rule change is to expand IMS to offer additional customized transaction recycling capabilities and to provide users with an enhanced approval mechanism in order to give users greater internal control over deliveries that they submit to DTC.

Currently, a participant using IMS can prepopulate its profile to customize the position recycle order for its night cycle deliveries. These “high priority” transactions are processed in the prescribed order if the participant has sufficient shares in its account. If there are insufficient shares to complete these high priority transactions, then DTC attempts to complete lower prioritized transactions that can be completed with the shares the participant has available.

The rule proposal would: (i) increase control over the processing order by adding two new recycle profiles; (ii) expand the recycle profiles to include Initial Public Offering (“IPO”) transactions, and (iii) allow a participant’s input to be subjected to secondary authorization through a new transaction type in IMS.

The new recycle profiles will allow participants to further customize the processing of their deliveries by either: (i) electing to have the deliveries processed in strict profile order or (ii) enabling the participant to hold all or a specific set of deliveries in a separate profile until they are ready to release those transactions for processing. For each delivery that is customized and recycled based upon profile selection, a participant will be charged \$0.06.

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<sup>3</sup> The Commission has modified the text of the summaries prepared by DTC.

Currently, participants can only route their NDOs to IMS for authorization. Under this proposed rule, participants will be able to submit their manual or automated day deliveries for authorization based on predetermined profiles. A user will be able to create a profile by asset class and within asset class by input source (e.g., only deliveries submitted by Participant Browser Service). The user will also be able to determine, based on input source, which delivery types (all valued, all free, only under/over valued deliveries) should be routed for authorization. For these deliveries, participants will be charged the current authorization fee of \$0.006 each in addition to the applicable delivery fee.

Participants would not be required to make any systematic changes and could continue to process their deliveries as they do today. IMS recycle profiles would be optional, and users that do not elect to prioritize their deliveries through IMS will continue to be subjected to the existing default recycle profile.

DTC believes the new enhancements will enable participants to route all of their deliveries to IMS, which will: (i) increase their ability to achieve straight-through processing; (ii) allow them to maximize their priority deliveries and associated settlement credits; and (iii) improve business continuity by having all of their deliveries residing at DTC throughout the day.

DTC believes the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>4</sup> and the rules and regulations thereunder applicable to DTC because it will promote the prompt and accurate clearance and settlement of securities transactions by increasing efficiency in processing member transactions.

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

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<sup>4</sup> 15 U.S.C. 78q-1.

DTC does not believe that the proposed rule change will impose any burden on competition. DTC has discussed the rule change proposal in its current form with various DTC participants and industry groups, a number of whom have worked closely in developing the proposed IMS system.

(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. 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 thirty-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 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 Number SR-DTC-2005-07 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-DTC-2005-07. 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 Web site (<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 inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549. Copies of such filings also will be available for inspection and copying at the principal office of DTC and on DTC's Web site at [www.dtc.org](http://www.dtc.org). 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-2005-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

Margaret H. McFarland  
Deputy Secretary

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<sup>5</sup> 17 CFR 200.30-3(a)(12).