

# The Depository Trust Company

# IMPORTANT

**B#: 3704-08**

**DATE:** July 7, 2008

**TO:** All Participants

**CATEGORY:** Compliance

**FROM:** General Counsel's Office

**ATTENTION:** Managing Partner/ Officer Cashier/ Operations Management

**SUBJECT:** DTC Proposed Rule Change SR-DTC-2008-07 – relating to the Direct Registration System for securities of The Depository Trust Company (“DTC”)

Recently, DTC filed a proposed rule change with the Securities and Exchange Commission (“SEC”) to make processing enhancements to its Profile Modification System feature (“Profile”) of the Direct Registration System (“DRS”) for securities of DTC.

In order to effectively transfer ownership via Profile, an investor’s instructions to move ownership from one form of securities ownership to another is communicated by a DTC Participant entering certain identifying criteria of the investor, such as share quantity and TIN/Social Security numbers, into Profile. If the submitted information does not match the information the DRS Limited Participant has on file, the result is a Profile rejection, which, in many cases, results in a fee assessed by the DRS Limited Participant. More importantly, the rejection can result in delays in moving the position, possibly causing an investor to miss the market.

Today, nearly 25% of all Profile transactions submitted are rejected by the transfer agent. The two most common reasons for a rejection are a) not matching on share quantity, or b) not matching on a TIN/Social Security number. By implementing systemic and process improvements to address these rejections, the DRS Ad Hoc Committee has agreed that the industry can potentially eliminate about 7,000 DRS Profile rejections a month.

In an effort to decrease the number of Profile rejections in the DRS Profile system, DTC has filed a proposed rule change with the SEC to enhance the DRS Profile functionality. These function changes will be required of all industry users of the DRS system. The proposed functionality changes will require system enhancements by those DRS Limited Participants and DTC Participants that process their DRS transactions through a direct electronic computer-to-computer link with DTC.<sup>1</sup> The enhancements

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<sup>1</sup> It is anticipated that for those users that communicate Profile instructions through DTC via a dedicated terminal (PTS or PBS); they will only need to update their internal procedures and workflow.

require their processing systems, to accept DRS Profile instructions to “move-all” shares from the investor’s DRS Limited Participant account to the investor’s DTC Participant’s account. A second enhancement will allow DTC Participants to submit Profile transactions with a second TIN/Social security number. The DRS Limited Participant will accept the Profile transaction, verifying to the agent’s records using either of the TIN/Social numbers that were submitted.

Members of the DRS Ad Hoc committee have agreed to a one time remuneration to compensate DRS Limited Participants for the system development of the enhancements contemplated under the move-all proposal. DTC Participants will pay seventy-five percent, with a maximum of \$200,000, of all system cost for project plans submitted by September 1, 2008. For project plans that will be managed by a vendor, such as SunGard, DTC Participants will pay based on the vendor's total project cost. DTC will act as a conduit to collect and distribute the remuneration from the DTC Participants to the DRS Limited Participants. DRS Limited Participants must submit a project plan to DTC by September 1, 2008 and be ready to implement the move-all Profile functionality in a live environment by November 1, 2008 to be eligible to receive the system cost remuneration. DTC will make a one time payment to eligible DRS Limited Participants no later than 90 calendar days after the completion of the move all and dual TIN/Social security functionality going live. DTC will collect a surcharge of \$1, for no more than twenty-four calendar months, for each DRS Profile transaction submitted by a DTC Participant to offset the up-front allocation to the DRS Limited Participants. In any event, at the end of twenty-four calendar months or sooner if all of the up-front allocation is collected, DTC will eliminate the surcharge.

DRS Limited Participants who wish to receive a transactional fee for the ongoing processing to support the move-all transactions must submit their project plan by September 1, 2008. The DRS Limited Participants’ representatives of the DRS Ad Hoc Committee have submitted that the monthly transactional fee will be no more than \$25,000 per year per DRS Limited Participant. DTC will pay each eligible DRS Limited Participant, with over 2,000 DRS Profile transactions monthly, a set monthly amount of \$2,080, or \$24,960 annually. DTC will pay each eligible DRS Limited Participant, with over 200 transactions monthly but less than 2,000 transactions monthly, a set monthly amount of \$800, or \$9,600 annually. DTC will not pay a fee to DRS Limited Participants with less than 200 transactions a month.

DTC will implement a pass-thru fee for each DRS Profile Transaction of \$.75 per Profile transaction, to offset the payments to the DRS Limited Participants. The pass-thru fee will be adjusted annually to reflect DRS Profile transactional volume changes.

As part of the DRS transfer agent eligibility requirements, **all** DRS eligible transfer agents must provide move-all and dual TIN/Social Security number processing by a date that is no later than December 31, 2008.

The full text of the rule change is available at our website, [www.dtcc.com](http://www.dtcc.com). Questions or inquiries regarding this Important Notice or the proposed rule change may be directed to Candice Fordin, Associate Counsel at email [cfordin@dtcc.com](mailto:cfordin@dtcc.com) or (212) 855-7632; any such comments will be forwarded to the SEC. Written comments may also be addressed to the Secretary of the Commission, Securities and Exchange Commission, 100 First Street, N.E., Washington, D.C. 20549. We request that you provide DTC with a copy of your comments.