

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 23	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2017 - * 012
Amendment No. (req. for Amendments *)		

Filing by The Depository Trust Company  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input checked="" type="checkbox"/> 19b-4(f)(4)	<input type="checkbox"/> 19b-4(f)(6)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).  
  
Proposed rule change relating to the DTC memo segregation function.

**Contact Information**  
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* John Last Name \* Petrofsky  
Title \* Assistant General Counsel  
E-mail \* jpetrofsky@dtcc.com  
Telephone \* (813) 470-2115 Fax

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.  
(Title \*)  
Deputy General Counsel and Managing Director

Date 06/30/2017  
By Lois J Radisch  
(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change.

(a) The text of the proposed rule change by The Depository Trust Company (“DTC”) is annexed hereto as Exhibit 5.<sup>1</sup> The proposed rule change would revise the Service Guide to enhance the Memo Segregation function (“Memo Seg”) with respect to its use by a Participant<sup>2</sup> in connection with Deliveries processed at DTC for transactions related to DRS,<sup>3</sup> as discussed below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

The proposed rule change was approved by the Deputy General Counsel of DTC on June 30, 2017.

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

(a) Purpose

Background

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<sup>1</sup> Each term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of DTC (the “Rules”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>, and the DTC Settlement Service Guide (“Service Guide”), available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>.

<sup>2</sup> For the purposes of this proposed rule change, the term Participant refers to both Participants and Limited Participants that use the Direct Registration System (“DRS”), as discussed below. (Pursuant to Rule 2 “...the term “Participant” shall include the term “Limited Participant” unless the (i) context otherwise requires or (ii) the Procedures otherwise provide.” See Rule 2, supra note 1.)

<sup>3</sup> External to DTC, DRS allows an investor to hold a Security as the registered owner in electronic form on the books of a transfer agent rather than holding a certificate or holding indirectly through a Securities Intermediary (e.g., a broker-dealer). DRS-related transactions between transfer agents and broker-dealers that are both Participants may be processed through DTC. (Typically, transfer agents are Limited Participants for purposes of processing DRS-related transactions.) See Securities Exchange Act Release No. 37931 (November 7, 1996), 61 FR 58600 (November 15, 1996) (SR-DTC-96-15).

Memo Seg allows a Participant to elect to protect a designated quantity of Securities in a given CUSIP (“Designated Quantity”) from unintended intraday Delivery at DTC.<sup>4</sup> When a Participant uses Memo Seg, if the total quantity of Securities in its account in a given CUSIP as a result of processing the Delivery would be equal to, or less than, the Designated Quantity, the Securities will not be Delivered, unless (a) the Participant elects to reduce the Designated Quantity or (b) the Designated Quantity is automatically reduced as a result of the Participant executing certain transactions (e.g., withdrawals-by-transfer, certificate-on-demand withdrawals, and free Deliveries that are not identified as stock loan or stock loan returns).<sup>5</sup> This allows for automated processing of Securities, reducing manual entries of a Participant to maintain a certain quantity of Securities in an Account.

### Proposed Rule Change

#### *1. Proposal that Standing Instructions from a Receiving Participant Would Automatically Increase the Participant’s Designated Quantity for Deliveries Associated with DRS Transactions*

By providing standing instructions, a Receiving Participant may currently elect to have Deliveries of Securities for certain types of transactions automatically increase the Receiving Participant’s Designated Quantity.<sup>6</sup> However, Securities transferred through DRS do not automatically increase the Receiving Participant’s Designated Amount. The Regulatory and Clearance Committee of the Securities Operations Section of the Securities Industry and Financial Markets Association (“SIMFA”) has requested that DTC modify Memo Seg so that

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<sup>4</sup> Participants that are registered broker-dealers use Memo Seg as a tool to maintain compliance with their obligations under Rule 15c3-3 (“Customer Protection Rule”). 17 CFR 240.15c3-3. The Customer Protection Rule requires, among other things, that broker-dealers maintain control of all fully-paid or excess margin Securities they hold for the accounts of customers. Compliance with those obligations by such broker-dealers is external to DTC. See Rule 2, supra note 1.

<sup>5</sup> See Service Guide, supra note 1, at 43-45.

<sup>6</sup> Transaction types are designated by the Delivering Participant using a reason code provided on a Delivery instruction (“Code”) (e.g., stock loan transactions, DRS-related, etc.). The Receiving Participant may provide standing instructions regarding its Designated Quantity using an indicator (“Indicator”), as discussed in the Service Guide. By selecting Indicators numbered 1, 2, 3 and 6, the Participant provides a standing instruction for its Designated Quantity to automatically increase when it is the Receiving Participant of a transaction designated with an applicable Code. See Service Guide, supra note 1 at 43-45.

Deliveries of Securities processed through DRS would automatically increase the Receiving Participant's Designated Quantity.<sup>7</sup>

In this regard, pursuant to the proposed rule change, DTC would revise the Service Guide to allow a Receiving Participant in a DRS-related transaction to elect to have its Designated Quantity automatically increased when the Delivering Participant uses Codes 390 or 391.<sup>8</sup> A Receiving Participant would make this election by selecting Indicator 1.

*2. Proposal to Update Memo Seg to Prevent Automatic Decrease of a Participant's Designated Quantity for DRS Reclaims*

Pursuant to the Service Guide, a Free Delivery made by a Participant always reduces its Designated Quantity unless an exception for a given transaction type is expressly provided for.<sup>9</sup> Pursuant to the proposed rule change, the text of the Service Guide would be revised so that a "Reclaim"<sup>10</sup> of a DRS-related Free Delivery, where the related transaction is one that the Receiving Participant does not know ("DK") (performed with Code 396), would not automatically reduce the Receiving Participant's Designated Quantity. This change would allow a Participant to exercise greater control in managing its Designated Quantity.

*3. Proposal to Make Technical Changes to the Memo Seg Section of the Service Guide*

The proposed rule change would also make technical changes to the Memo Seg section of the Service Guide to:

- a. (i) change references to "you" and "your" to "a Participant," "the Participant," "Participants" or "its," as applicable and (ii) make grammatical and spacing changes to the text to provide enhanced clarity and readability with respect to provisions related to Memo Seg; and
- b. add an annex to the Service Guide containing the descriptions of the Codes listed in the "Non-Optional Memo Segregation Transactions" and the "Optional Memo Segregation Indicators" subsections.

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<sup>7</sup> SIFMA has indicated that making this update to Memo Seg would strengthen the ability of Participants to control and protect customer fully-paid Securities transferred through DRS.

<sup>8</sup> Code 390 indicates a DRS-related Delivery and Code 391 indicates a DRS-related return of a Delivery.

<sup>9</sup> See supra note 1 at 43-45.

<sup>10</sup> A Reclaim is the return of a Deliver Order, Payment Order, institutional delivery transaction or MMI transaction received by a Participant. See Service Guide, supra note 1 at 6.

### Effective Date of Proposed Rule Change

The proposed rule change would be effective upon filing with the Securities and Exchange Commission (“Commission”).

#### (b) Statutory Basis

Section 17A(b)(3)(F)<sup>11</sup> of the Securities Exchange Act of 1934 (“Act”) requires that the rules of the clearing agency be designed, *inter alia*, to protect investors and the public interest. DTC believes the proposed rule change is consistent with this provision because it would (i) reduce the risk of unintended Delivery of Securities that are the subject of a DRS-related transaction by a Participant (A) that elects to use applicable Indicators<sup>12</sup> or (B) enters a DK-related Reclaim in connection with a DRS-related Free Delivery and (ii) make other technical and grammatical changes to the text of the Service Guide that would provide enhanced clarity and readability with respect to provisions related to Memo Seg, as discussed above. Thus, by (i) reducing the risk of an unintended Delivery in this regard and (ii) making other technical and grammatical changes to the text of the Service Guide in order to provide enhanced clarity and readability with respect to provisions related to Memo Seg, DTC believes that the proposed rule change would help protect investors and the public interest, consistent with Section 17(b)(3)(F) of the Act, cited above.

The proposed rule change is also designed to be consistent with Rule 17Ad-22(e)(23) of the Act,<sup>13</sup> which was recently adopted by the Commission.<sup>14</sup> Rule 17Ad-22(e)(23) requires DTC, *inter alia*, to establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures. The proposed rule change, as described above, would update the Service Guide to add descriptions of the Codes referenced in the Memo Seg section of the Service Guide, as discussed above. As such, DTC believes that the proposed rule change would promote disclosure of relevant rules and

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

<sup>12</sup> DTC makes Memo Seg available as a tool for Participants, but does not monitor, and is not responsible for, any Participant’s compliance with its obligation to protect customer fully-paid Securities. With respect to any Securities processed through DTC, DTC does not recognize (and is not required by its Rules and Procedures or applicable law to recognize) a distinction between proprietary and customer Securities.

<sup>13</sup> 17 CFR 240.17Ad-22(e)(23).

<sup>14</sup> The Commission adopted amendments to Rule 17ad-22, including the addition of new subsection 17ad-22(e), on September 28, 2016. See Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). DTC is a “covered clearing agency” as defined by new Rule 17ad-22(a)(5) and must comply with subsection (e) of Rule 17Ad-22. Id.

material procedures relating to Participants' use of Memo Seg, in accordance with the requirements of Rule 17Ad-22(e)(23), promulgated under the Act, cited above.

4. Clearing Agency's Statement on Burden on Competition.

DTC does not believe that the proposed rule change would have any impact on competition because the proposed rule change would merely enhance the ability of any Receiving Participant to control Securities in its Account.

5. Clearing Agency'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 been solicited or received. DTC will notify the Commission of any written comments received by DTC. DTC management has discussed its intent to implement the proposed change with SIFMA and Participants.

6. Extension of Time Period for Commission Action.

DTC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D).

- (a) This filing is made pursuant to Section 19(b)(3)(A)<sup>15</sup> of the Act and subparagraph (f)(4)<sup>16</sup> of Securities Exchange Act Rule 19b-4.
- (b) The proposed rule change effects a change in an existing service of DTC that: (i) does not adversely affect the safeguarding of Securities in the custody or control of DTC or for which it is responsible; and (ii) does not significantly affect the respective rights or obligations of DTC or persons using this service, as it would merely enhance any Participant's ability to control Securities in its Account.

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

<sup>16</sup> 17 CFR 240.19b-4(f)(4).

- (c) Not applicable.
- (d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act.

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act.

Not applicable.

11. Exhibits.

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5– Text of proposed rule change.



**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-DTC-2017-012)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the DTC Settlement Service Guide in Order to Enhance the Memo Segregation Function in Connection with Deliveries Processed at DTC Related to the Direct Registration System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, 2017, 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. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A)<sup>3</sup> of the Act and Rule 19b-4(f)(4)<sup>4</sup> thereunder. The proposed rule change was effective upon filing with the Commission. 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 would revise the DTC Settlement Service Guide (“Service Guide”)<sup>5</sup> to enhance the Memo Segregation function (“Memo Seg”) with

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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> 15 U.S.C. 78s(b)(3)(A).

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

<sup>5</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>. Each term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of DTC

respect to its use by a Participant<sup>6</sup> in connection with Deliveries processed at DTC for transactions related to DRS,<sup>7</sup> as discussed 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

Background

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(the "Rules"), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>, and the Service Guide.

<sup>6</sup> For the purposes of this proposed rule change, the term Participant refers to both Participants and Limited Participants that use the Direct Registration System ("DRS"), as discussed below. (Pursuant to Rule 2 "...the term "Participant" shall include the term "Limited Participant" unless the (i) context otherwise requires or (ii) the Procedures otherwise provide." See Rule 2, supra note 5.)

<sup>7</sup> External to DTC, DRS allows an investor to hold a Security as the registered owner in electronic form on the books of a transfer agent rather than holding a certificate or holding indirectly through a Securities Intermediary (e.g., a broker-dealer). DRS-related transactions between transfer agents and broker-dealers that are both Participants may be processed through DTC. (Typically, transfer agents are Limited Participants for purposes of processing DRS-related transactions.) See Securities Exchange Act Release No. 37931 (November 7, 1996), 61 FR 58600 (November 15, 1996) (SR-DTC-96-15).

Memo Seg allows a Participant to elect to protect a designated quantity of Securities in a given CUSIP (“Designated Quantity”) from unintended intraday Delivery at DTC.<sup>8</sup> When a Participant uses Memo Seg, if the total quantity of Securities in its account in a given CUSIP as a result of processing the Delivery would be equal to, or less than, the Designated Quantity, the Securities will not be Delivered, unless (a) the Participant elects to reduce the Designated Quantity or (b) the Designated Quantity is automatically reduced as a result of the Participant executing certain transactions (e.g., withdrawals-by-transfer, certificate-on-demand withdrawals, and free Deliveries that are not identified as stock loan or stock loan returns).<sup>9</sup> This allows for automated processing of Securities, reducing manual entries of a Participant to maintain a certain quantity of Securities in an Account.

Proposed Rule Change

1. *Proposal that Standing Instructions from a Receiving Participant Would Automatically Increase the Participant’s Designated Quantity for Deliveries Associated with DRS Transactions*

By providing standing instructions, a Receiving Participant may currently elect to have Deliveries of Securities for certain types of transactions automatically increase the

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<sup>8</sup> Participants that are registered broker-dealers use Memo Seg as a tool to maintain compliance with their obligations under Rule 15c3-3 (“Customer Protection Rule”). 17 CFR 240.15c3-3. The Customer Protection Rule requires, among other things, that broker-dealers maintain control of all fully-paid or excess margin Securities they hold for the accounts of customers. Compliance with those obligations by such broker-dealers is external to DTC. See Rule 2, supra note 5.

<sup>9</sup> See Service Guide, supra note 5, at 43-45.

Receiving Participant's Designated Quantity.<sup>10</sup> However, Securities transferred through DRS do not automatically increase the Receiving Participant's Designated Amount. The Regulatory and Clearance Committee of the Securities Operations Section of the Securities Industry and Financial Markets Association ("SIMFA") has requested that DTC modify Memo Seg so that Deliveries of Securities processed through DRS would automatically increase the Receiving Participant's Designated Quantity.<sup>11</sup>

In this regard, pursuant to the proposed rule change, DTC would revise the Service Guide to allow a Receiving Participant in a DRS-related transaction to elect to have its Designated Quantity automatically increased when the Delivering Participant uses Codes 390 or 391.<sup>12</sup> A Receiving Participant would make this election by selecting Indicator 1.

2. *Proposal to Update Memo Seg to Prevent Automatic Decrease of a Participant's Designated Quantity for DRS Reclaims*

Pursuant to the Service Guide, a Free Delivery made by a Participant always reduces its Designated Quantity unless an exception for a given transaction type is

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<sup>10</sup> Transaction types are designated by the Delivering Participant using a reason code provided on a Delivery instruction ("Code") (e.g., stock loan transactions, DRS-related, etc.). The Receiving Participant may provide standing instructions regarding its Designated Quantity using an indicator ("Indicator"), as discussed in the Service Guide. By selecting Indicators numbered 1, 2, 3 and 6, the Participant provides a standing instruction for its Designated Quantity to automatically increase when it is the Receiving Participant of a transaction designated with an applicable Code. See Service Guide, supra note 5 at 43-45.

<sup>11</sup> SIFMA has indicated that making this update to Memo Seg would strengthen the ability of Participants to control and protect customer fully-paid Securities transferred through DRS.

<sup>12</sup> Code 390 indicates a DRS-related Delivery and Code 391 indicates a DRS-related return of a Delivery.

expressly provided for. Pursuant to the proposed rule change, the text of the Service Guide would be revised so that a “Reclaim” of a DRS-related Free Delivery, where the related transaction is one that the Receiving Participant does not know (“DK”) (performed with Code 396), would not automatically reduce the Receiving Participant’s Designated Quantity. This change would allow a Participant to exercise greater control in managing its Designated Quantity.

3. *Proposal to Make Technical Changes to the Memo Seg Section of the Service Guide*

The proposed rule change would also make technical changes to the Memo Seg section of the Service Guide to:

- a. (i) change references to “you” and “your” to “a Participant,” “the Participant,” “Participants” or “its,” as applicable and (ii) make grammatical and spacing changes to the text to provide enhanced clarity and readability with respect to provisions related to Memo Seg; and
- b. Add an annex to the Service Guide containing the descriptions of the Codes listed in the “Non-Optional Memo Segregation Transactions” and the “Optional Memo Segregation Indicators” subsections.

Effective Date of Proposed Rule Change

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

2. Statutory Basis

Section 17A(b)(3)(F)<sup>13</sup> of the Securities Exchange Act of 1934 (“Act”) requires that the rules of the clearing agency be designed, *inter alia*, to protect investors and the

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

public interest. DTC believes the proposed rule change is consistent with this provision because it would (i) reduce the risk of unintended Delivery of Securities that are the subject of a DRS-related transaction by a Participant that (A) elects to use applicable Indicators<sup>14</sup> or (B) enters a DK-related Reclaim in connection with a DRS-related Free Delivery and (ii) make other technical and grammatical changes to the text of the Service Guide that would provide enhanced clarity and readability with respect to provisions related to Memo Seg, as discussed above. Thus, by (i) reducing the risk of an unintended Delivery in this regard and (ii) making other technical and grammatical changes to the text of the Service Guide in order to provide enhanced clarity and readability with respect to provisions related to Memo Seg, DTC believes that the proposed rule change would help protect investors and the public interest, consistent with Section 17(b)(3)(F) of the Act, cited above.

The proposed rule change is also designed to be consistent with Rule 17Ad-22(e)(23) of the Act,<sup>15</sup> which was recently adopted by the Commission.<sup>16</sup> Rule 17Ad-22(e)(23) requires DTC, *inter alia*, to establish, implement, maintain and enforce written

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<sup>14</sup> DTC makes Memo Seg available as a tool for Participants, but does not monitor, and is not responsible for, any Participant's compliance with its obligation to protect customer fully-paid Securities. With respect to any Securities processed through DTC, DTC does not recognize (and is not required by its Rules and Procedures or applicable law to recognize) a distinction between proprietary and customer Securities.

<sup>15</sup> 17 CFR 240.17Ad-22(e)(23).

<sup>16</sup> The Commission adopted amendments to Rule 17ad-22, including the addition of new subsection 17ad-22(e), on September 28, 2016. *See* Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). DTC is a "covered clearing agency" as defined by new Rule 17ad-22(a)(5) and must comply with subsection (e) of Rule 17Ad-22. *Id.*

policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures. The proposed rule change, as described above, would update the Service Guide to add descriptions of the Codes referenced in the Memo Seg section of the Service Guide, as discussed above. As such, DTC believes that the proposed rule change would promote disclosure of relevant rules and material procedures relating to Participants' use of Memo Seg, in accordance with the requirements of Rule 17Ad-22(e)(23), promulgated under the Act, cited above.

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

DTC does not believe that the proposed rule change would have any impact on competition because the proposed rule change would merely enhance the ability of any Receiving Participant to control Securities in its Account.

(C) Clearing Agency'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 been solicited or received. DTC will notify the Commission of any written comments received by DTC. DTC management has discussed its intent to implement the proposed change with SIFMA and Participants.

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)<sup>17</sup> of the Act and paragraph (f) of Rule 19b-4<sup>18</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily

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

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

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:

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-2017-012 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-2017-012. 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; 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-2017-012 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>

Secretary

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

## EXHIBIT 5

**Bold, Underlined** text indicates additions.

**~~Bold, Strikethrough~~** text indicates deletions.

### Memo Segregation\*

#### About the Product

Participants can protect fully-paid-for customer securities using the Memo Segregation function. Memo Segregation is similar to the Segregation function, which allows ~~you~~ **a Participant** to protect fully-paid-for customer securities by moving them from a free position to a protected (segregated) position. However, whereas Segregation allows ~~you~~ **a Participant** to move only existing positions, Memo Segregation allows ~~you~~ **the Participant** to create memo-segregated positions within ~~your~~ **its** free positions, thus allowing ~~you~~ **the Participant** to protect anticipated, fully-paid-for customer securities.

#### How the Product Works

~~You~~ **A Participant** can have ~~your~~ **its** Memo Segregation counter automatically increased upon receipt of certain transactions. ~~You~~ **The Participant** can also allow positions resulting from certain transactions to be available for redelivery (turnaround) regardless of Memo Segregation constraints. DTC gives ~~you~~ **the Participant** two options for creating Memo Segregation positions:

1. Provide DTC with specific Memo Segregation transactions using the Memo Segregation function, instructing DTC to establish or adjust Memo Segregation positions.
2. Provide DTC with standing instructions to have certain types of transactions automatically increase Memo Segregation positions, and ignore Memo Segregation positions in order to allow redeliveries (turnarounds) to complete.

To provide DTC with standing instructions, submit a Memo Segregation Request form. To get a copy of this form **a Participant should** contact ~~your~~ **its** Relationship Manager.

#### Non-Optional Memo Segregation Transactions

Independently of the preceding options, the following transactions always reduce ~~your~~ **a Participant's** Memo Segregation position:

- Withdrawals-by-transfer (WTs) Certificates-on-demand (CODs)
- Free deliver orders (DO), except those processed with reason codes: 10--29, 98, 100, 220, 260--268, 270-278, 280--288, 290--291, **396**, 600-619, 704-708, and CNS short covers
- Deliveries processed with reason codes 95, 97, 630, 640 and reclaim codes 197, 631, and 641 (free and valued).

When one of these transaction types is processed against ~~your~~ **a Participant's** account with a Memo Segregation position, the system checks the **Participant's** free account. If sufficient shares exist, both the free position and the Memo Segregation position are reduced by the amount of the transaction.

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\***See Annex A for descriptions of the reason codes referenced in this Memo Segregation section.**

*Note-* If the free position is greater than the Memo Segregation position, and the transaction is for the entire free amount, the Memo Segregation position is reduced to zero; it does not become a negative value.

## Optional Memo Segregation Indicators

~~You~~ **A Participant** can activate any of five Memo Segregation indicators by providing DTC with a standing Memo Segregation instruction. When ~~you~~ **the Participant** activates a Memo Segregation indicator, ~~you're~~ **the Participant's** free position and Memo Segregation position are automatically updated according to the indicators that ~~you have~~ **the Participant has** elected.

Activate Indicator	To
1	Automatically increase <del>your</del> <b>the Participant's</b> Memo Segregation counter upon the receipt of: <ul style="list-style-type: none"> <li>• Free and valued DOs with reason codes 40, 99, 330, &amp; 340.</li> <li>• <b><u>DRS-related Deliveries with reason codes 390 and 391</u></b></li> <li>• WT reversals</li> <li>• Positions resulting from voluntary and mandatory reorganizations.</li> </ul>
2	Automatically increase <del>your</del> <b>the Participant's</b> Memo Segregation counter upon receipt of transactions with reason codes 41-48, 331-338, <b><u>and</u></b> 341-348.
3	Automatically increase <del>your</del> <b>the Participant's</b> Memo Segregation counter upon the receipt of CNS receives from the Fully-Paid-For Securities or "E" account.
4	Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from DOs with reason codes 10, 30, and 600, except those with reason codes 10, 20, 260, 270, 280, or 290.
5	Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from: <p>All DOs, except those with reason codes 20-29, 40-48, 99, 261-268, 270-278, 290, 291, 330-338, 340-348, 390, 610-619, 705-707 and CNS receives from the "C" and "E" accounts except if the turnaround is a reason code 10, 20, 260, 270, 280, or 290.</p>
6	A Participant may elect to increase automatically its Memo Segregation counter by the units of securities credited to the Participant's account in any ACATS transfer to that account.

Memo Segregation indicators 4 and 5 control the capability that allows certain positions to be used for turnarounds up to the amount of the received position, regardless of Memo Segregation constraints.

Even if ~~your~~ **the Participant have has** no pending deliveries at the time a position is received from a DO with reason code 10 or 30, DTC retains, throughout that day's processing cycle, a notation of the number of shares received from such deliveries. DTC also processes any deliveries regardless of when they are submitted that day, up to that number, regardless of ~~your~~ **the Participant's** Memo Segregation position.

## **Memo Segregation Contact Number**

For more information about Memo Segregation, call DTC's Customer Support Center at (888) 382-2721.

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## **Annex A**

### **Memo Segregation Supplement**

#### **DO Reason Code Description Reference**

**The following is a listing of descriptions of the reason codes referred to in the "Memo Segregation" section above.**

**10 (Stock Loan)**

**11 (Stock Loan Reclaim-DK)**

**12 (Stock Loan Reclaim-Wrong Quantity)**

**13 (Stock Loan Reclaim-Wrong Security)**

**14 (Stock Loan Reclaim-Wrong Money)**

**15 (Stock Loan Reclaim-Partial)**

**16 (Stock Loan Reclaim-Needs Account Information)**

**17 (Stock Loan Reclaim-Needs Due Bill)**

**18 (Stock Loan Partial Reclaim/Partial Return)**

**19 (Stock Loan Recall)**

**20 (Stock Loan Return)**

**21 (Stock Loan Reclaim-DK)**

**22 (Stock Loan Return Reclaim-DK)**

**23 (Stock Loan Return Reclaim-Wrong Security)**

**24 (Stock Loan Return Reclaim-Wrong Money)**

**25 (Stock Loan Return Reclaim-Partial)**

**26 (Stock Loan Return Reclaim-Needs Account Information)**

**27 (Stock Loan Return Reclaim-Needs Due Bill)**

**28 (Stock Loan Return Partial Reclaim-Partial Return)**

**29 (Stock Loan Recall Reclaim)**

**30 (Delivery Versus Payment)**

**40 (Transfer of Customer Document)**

**41 (Transfer Customer Account Reclaim-DK)**

**42 (Transfer Customer Account Reclaim-Wrong Quantity)**

**43 (Transfer Customer Account Reclaim-Wrong Security)**

**44 (Transfer Customer Account Reclaim-Wrong Money)**

**45 (Transfer Customer Account Reclaim-Partial)**

- [46 \(Transfer Customer Account Reclaim-Needs Account Information\)](#)
- [47 \(Transfer Customer Account Reclaim-Due Bill\)](#)
- [48 \(Transfer Customer Account-Partial Reclaim/Partial Return\)](#)
- [90 \(ADR Stock Loan Return-Untracked\)](#)
- [95 \(ACATS Value With Memo Seg\)](#)
- [97 \(Delivery Versus Payment With Memo Seg\)](#)
- [98 \(Transfer of Account Without Memo Seg\)](#)
- [99 \(Bulk Transfer of Account\)](#)
- [100 \(Account Transfer Without Memo Seg Reclaim\)](#)
- [197 \(Account Transfer With Memo Seg Reclaim\)](#)
- [220 \(Repo Tracking\)](#)
- [260 \(OCC Stock Loan\)](#)
- [261 \(OCC Stock Loan Reclaim-DK\)](#)
- [262 \(OCC Stock Loan Reclaim-Wrong Quantity\)](#)
- [263 \(OCC Stock Loan Reclaim-Wrong Security\)](#)
- [264 \(OCC Stock Loan Reclaim-Wrong Money\)](#)
- [265 \(OCC Stock Loan Reclaim -Partial\)](#)
- [266 \(OCC Stock Loan Reclaim-Needs Account Information\)](#)
- [267 \(OCC Stock Loan Return-Untracked\)](#)
- [268 \(OCC Stock Loan- Partial Reclaim/Partial Return\)](#)
- [270 \(OCC Stock Loan Return\)](#)
- [271 \(OCC Stock Loan Return Reclaim-DK\)](#)
- [272 \(OCC Stock Loan Return Reclaim-Wrong Quantity\)](#)
- [273 \(OCC Stock Loan Return Reclaim-Wrong Security\)](#)
- [274 \(OCC Stock Loan Return Reclaim-Wrong Money\)](#)
- [275 \(OCC Stock Loan Return Reclaim-Partial\)](#)
- [276 \(OCC Stock Loan Return Reclaim-Missing Account Information\)](#)
- [277 \(OCC Stock Loan Return-Untracked\)](#)
- [278 \(OCC Stock Loan Return-Partial Reclaim/Partial Return\)](#)
- [280 \(ADR Stock Loan-Untracked\)](#)
- [281 \(ADR Stock Loan Reclaim-DK\)](#)
- [282 \(ADR Stock Loan Reclaim-Wrong Quantity\)](#)
- [283 \(ADR Stock Loan Reclaim-Wrong Security\)](#)
- [284 \(ADR Stock Loan Reclaim-Wrong Money\)](#)
- [285 \(ADR Stock Loan Reclaim-Partial\)](#)
- [286 \(ADR Stock Loan Reclaim-Needs Account Information\)](#)
- [287 \(ADR Stock Loan Reclaim \(Needs Due Bill\)](#)
- [288 \(ADR Stock Loan Partial Reclaim/Partial Return\)](#)
- [290 \(ADR Stock Loan Return-Untracked\)](#)
- [291 \(ADR Stock Loan Return Reclaim-DK\)](#)

- [330 \(Direct Rollover to IRA\)](#)
- [331 \(Direct Rollover to IRA Reclaim-DK\)](#)
- [332 \(Direct Rollover to IRA Reclaim-Wrong Quantity\)](#)
- [333 \(Direct Rollover to IRA Reclaim-Wrong Security\)](#)
- [334 \(Direct Rollover to IRA Reclaim-Wrong Money\)](#)
- [335 \(Direct Rollover to IRA Reclaim-Partial\)](#)
- [336 \(Direct Rollover to IRA Reclaim-Needs Account Information\)](#)
- [337 \(Direct Rollover to IRA Reclaim-Needs Due Bill\)](#)
- [338 \(Direct Rollover to IRA Partial Reclaim/Partial Return\)](#)
- [340 \(Direct Rollover to Qualified Plan\)](#)
- [341 \(Direct Rollover to Qualified Plan Reclaim-DK\)](#)
- [342 \(Direct Rollover to Qualified Plan Reclaim-Wrong Quantity\)](#)
- [343 \(Direct Rollover to Qualified Plan Reclaim-Wrong Security\)](#)
- [344 \(Direct Rollover to Qualified Plan Reclaim-Wrong Money\)](#)
- [345 \(Direct Rollover to Qualified Plan Reclaim-Partial\)](#)
- [346 \(Direct Rollover to Qualified Plan Reclaim-Needs Account Information\)](#)
- [347 \(Direct Rollover to Qualified Plan Reclaim-Needs Due Bill\)](#)
- [348 \(Direct Roller to Qualified Plan Partial Reclaim/Partial Return\)](#)
- [390 \(Direct Registration Transfer\)](#)
- [391 \(Direct Registration Reversal\)](#)
- [396 \(Direct Registration Reclaim DK-Without Memo Seg\)](#)
- [600 \(Collateral DO Return\)](#)
- [601 \(Collateral DO Reclaim-DK\)](#)
- [602 \(Collateral DO Reclaim-Wrong Quantity\)](#)
- [603 \(Collateral DO Reclaim-Wrong Security\)](#)
- [605 \(Collateral DO Reclaim-Partial\)](#)
- [606 \(Collateral DO Reclaim-Needs Account Information\)](#)
- [607 \(Collateral DO Reclaim-Needs Due Bill\)](#)
- [608 \(Collateral DO-Partial Reclaim/Partial Return\)](#)
- [609 \(Collateral DO Recall\)](#)
- [610 \(Collateral DO Return\)](#)
- [611 \(Collateral DO Return Reclaim-DK\)](#)
- [612 \(Collateral DO Return Reclaim-Wrong Quantity\)](#)
- [613 \(Collateral DO Return Reclaim-Wrong Security\)](#)
- [615 \(Collateral DO Return Reclaim-Partial\)](#)
- [616 \(Collateral DO Return Reclaim-Needs Account Information\)](#)
- [617 \(Collateral DO Return Reclaim-Needs Due Bill\)](#)
- [618 \(Collateral DO Return-Partial/Reclaim-Partial Return\)](#)
- [619 \(Collateral DO Recall Reclaim\)](#)
- [630 \(Repo With Memo Decrease\)](#)

631 (Repo Reclaim With Memo Decrease)

640 (Repo Return With Memo Decrease)

641 (Repo Return Reclaim With Memo Decrease)

704 (OCC Stock Loan-Untracked)

705 (OCC Stock Loan Reclaim-Untracked)

706 (OCC Stock Loan Return-Untracked)

707 (OCC Stock Loan Return RCL-Untracked)

708 (EuroCCP Net Obligation)

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