

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="30"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="018"/>	Amendment No. (req. for Amendments *) <input type="text"/>
---	--	---	--

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"/>
			Rule		
Pilot <input type="checkbox"/>	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 checked="" 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"/>
---	---

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposed rule change to amend the DTC Distributions Service Guide with respect to announcements and tax treatment of certain corporate actions and to amend the fee schedule.

**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 * <input type="text" value="John"/>	Last Name * <input type="text" value="Petrofsky"/>
Title * <input type="text" value="Director and Assistant General Counsel"/>	
E-mail * <input type="text" value="jpetrofsky@dtcc.com"/>	
Telephone * <input type="text" value="(813) 470-2115"/>	Fax <input type="text"/>

**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 \*)

Date <input type="text" value="10/02/2017"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>
By <input type="text" value="Lois J Radisch"/>	<input type="text" value="lradisch@dtcc.com"/>
(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 \***

Add Remove View

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 \***

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, 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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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 proposed rule change of The Depository Trust Company (“DTC”) is annexed hereto as Exhibit 5.<sup>1</sup> The proposed rule change would (i) revise the Distributions Guide to (A) enhance the DTC Announcements feature (“Announcements”) within the DTC Distributions Service (“Distributions Service”)<sup>2</sup> by adding new corporate action events that do not involve the payment of funds or distribution of Securities through DTC, but which may result in a taxable event for holders (“Tax Event”), as a type of distribution covered by Announcements (“Distribution Event”)<sup>3</sup> and (B) make technical and conforming changes relating to U.S. tax withholding and information reporting performed by DTC with respect to Tax Events; and (ii) add a fee relating to the announcement of Tax Events (“New Fee”) to the DTC Fee Schedule (“Fee Schedule”),<sup>4</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 September 29, 2017, pursuant to delegated authority from the Board of Directors.

## 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

---

<sup>1</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 (the “DTC Rules”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx> and the DTC Distributions Service Guide (“Distributions Guide”), available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Service%20Guide%20Distributions.pdf>.

<sup>2</sup> The Distributions Service includes DTC’s announcement, collection, allocation and reporting of dividend, interest and certain principal payments on behalf of Participants holding Securities at DTC. See Distributions Guide, supra note 1 at 9.

<sup>3</sup> Distribution Events covered by Announcements include cash dividends, interest, principal, capital gains, sale of rights on American depository receipts, return of capital, dividend with option, stock splits, stock dividends, automatic dividend reinvestments, spinoffs, rights distributions, pay in kind, and liquidation. Distributions Guide, supra note 1 at 12.

<sup>4</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/fee-guides/dtcfeeguide.pdf?la=en>.

The proposed rule change would (i) revise the Distributions Guide to (A) enhance Announcements by adding Tax Events as a Distribution Event and (B) make technical and conforming changes relating to U.S. tax withholding and information reporting performed by DTC with respect to Tax Events; and (ii) add the New Fee to the Fee Schedule, as discussed below.

A. Distributions Service Announcements Feature

The Distributions Service includes the announcement, collection, allocation and reporting by DTC, on behalf of its Participants, of dividend, interest and principal payments for Eligible Securities held by Participants at DTC. This centralized processing provides efficiency for Participants for their receipt of (i) payment information and (ii) payments on Distribution Events, from multiple issuers and agents.<sup>5</sup> In this regard, Announcements provides Participants with information pertaining to their record date (“Record Date”)<sup>6</sup> positions for Distribution Events.<sup>7</sup> This information facilitates Participants’ ability to reconcile their records with DTC before the payable date (“Payable Date”).<sup>8</sup>

B. Internal Revenue Code Section 305(c)

Section 305(c) of the Internal Revenue Code<sup>9</sup> (“Section 305(c)”) states that holders of convertible securities may be deemed to have received a dividend because of a corporate action on common stock into which the convertible security may be converted.<sup>10</sup>

In the most frequent scenario relevant to Distribution Events, an issuer that pays a cash dividend to its shareholders may trigger an increase to the conversion rate (“Convertible Rate Adjustment”)<sup>11</sup> on a convertible debt Security. Under Section 305(c), this Convertible Rate

---

<sup>5</sup> See Distributions Guide, *supra* note 1 at 9.

<sup>6</sup> The Record Date is the date set by an issuer of a security by which an investor must own the security in order to be eligible to receive an upcoming distribution.

<sup>7</sup> See Distributions Guide, *supra* note 1 at 11-13.

<sup>8</sup> The Payable Date is a date established by an issuer on which a distribution to holders will be paid by the issuer.

<sup>9</sup> 26 U.S.C. 305(c).

<sup>10</sup> Under Section 305(c), a change in the conversion ratio or conversion price or a similar transaction is treated "as a distribution [by the issuer] with respect to any shareholder whose proportionate interest in the earnings and profits or assets of the corporation is increased by such change." *Id.*

<sup>11</sup> Such a convertible debt Security provides for a Conversion Rate Adjustment so that the conversion rate is changed if a distribution is made on the issuer’s common stock. Generally, the primary purpose of a Convertible Rate Adjustment is to prevent the holder of a convertible debt Security from being diluted upon a distribution to the shareholders by adjusting the conversion rate on the stock to increase the number of shares that the debt holder can obtain in a conversion of the bond to shares of the issuer.

Adjustment is considered as a deemed distribution.<sup>12</sup> This deemed distribution under Section 305(c)<sup>13</sup> may be subject to tax reporting by Participants, and if the convertible debt Securities are held by non-U.S. persons, the appropriate tax withholding.

In April 2016, the U.S. Treasury released proposed regulations to provide guidance to financial institutions regarding their withholding and reporting obligations.<sup>14</sup> The regulations also require issuers of convertible securities to provide the amount and the timing of deemed distributions under Section 305(c) to the holders of convertible securities, i.e., DTC. Despite this reporting requirement, holders may not be directly informed of changes that have occurred in the instrument's conversion ratio or the amount of the resulting "deemed" distribution that may result in a tax withholding obligation for them. A lack of information relating to these deemed distributions and other Tax Events may affect Participants' ability to comply with applicable Federal tax withholding requirements and applicable DTC Rules requirements relating to the use of DTC services.<sup>15</sup>

### C. Proposed Enhancement to Announcements Feature

Pursuant to the proposed rule change, in order to facilitate Participants' ability to comply with the requirements described above, DTC would revise the Distributions Guide to allow it to source information on Section 305(c) deemed distributions and other Tax Events for Securities on Deposit at DTC directly from issuers, and then provide the Tax Event information to Participants. DTC would distribute the Tax Event information for a deemed distribution in the same standardized manner that DTC uses to announce distributions. In this regard, DTC would revise the text of the Distributions Guide to (i) add Tax Events as a Distribution Event covered by the functionality described in the Distributions Guide and (ii) add a new section titled "Tax Event Announcements" to (a) describe and define Tax Events and Tax Event Announcements and (b) describe the systemic data fields ("Fields") that DTC would use to provide relevant Tax Event information for a Security to Participants, including: (1) "Event Type" to be shown as "Tax Event," (2) "Sub Event Type," which would be used to classify the type of Tax Event, (3) Payable Date, (4) Record Date, (5) "Cash Rate," to provide the amount of the deemed distribution, and (6) "Comments," which would be used to provide any other pertinent information regarding the Tax Event.

---

Footnote continued from previous page

<sup>12</sup> Such a distribution based on dividend payments made to common shareholders will be considered to be deemed distribution to bondholders even before the bondholders convert the debt to equity.

<sup>13</sup> Supra note 9.

<sup>14</sup> IRS-2016-0016-0001. 81 FR 21795 (April 13, 2016) (REG-133673-15).

<sup>15</sup> In connection with their use of DTC's services, Participants must comply with all applicable laws, including, but not limited to all applicable laws relating to taxation. See Rule 2, Section 8, supra note 1.

D. Proposed New Fee

Pursuant to the Fee Schedule, DTC charges fees to Participants for the processing of corporate action events. Fees are established to offset the cost of processing all aspects of the applicable corporate action event, including the announcement processing, the actual processing of payments, and book-entries associated with the corporate action. Pursuant to the proposed rule change, the Fee Schedule would be revised so that a Participant that holds Securities subject to a Tax Event would be charged flat fee of \$40 per announcement. The proposed New Fee would align DTC's revenue with its costs for retrieval of Tax Event information from issuers and announcing that information to Participants, as proposed. The New Fee would be added to the Fee Schedule underneath the heading for U.S. Tax Withholding, which is a feature of the Distributions Service, for reference purposes so that it would be located on the Fee Schedule in the same place as other fees charged for tax-related processing performed by DTC.

E. Processing of Tax Withholding and Information Reporting

DTC performs adjustments for entitlement and allocation activity that is outside of traditional pay date allocations. This includes activity tracking for stock loans, repos, and due bill fail tracking.<sup>16</sup> With respect to tax treatment of such adjustments, currently the text of the Distributions Guide refers to DTC's performance of U.S. tax withholding and information reporting for credit adjustments that occur with respect to Participant positions in their DTC accounts.<sup>17</sup> The proposed rule change would modify the applicable text with respect to the tax treatment described within the Due Bill Fail Tracking System, Stock Loan Income Tracking System and Repurchase Agreement (REPO) Tracking System subsections of the Adjustments Section of the Distributions Guide, to state that such withholding and reporting would also be performed related to Tax Events.

Implementation Timeframe

The proposed rule change would be implemented on October 2, 2017.

(b) Statutory Basis

DTC believes that the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 ("Act"), and the rules and regulations thereunder applicable to DTC, in particular Sections 17A(b)(3)(D)<sup>18</sup> and 17A(b)(3)(F)<sup>19</sup> of the Act.

Section 17A(b)(3)(D) of the Act<sup>20</sup> requires that the rules of the clearing agency provide

---

<sup>16</sup> See Distributions Guide, supra note 1 at 32.

<sup>17</sup> Id. at 34, 36, and 37

<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(D).

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>20</sup> Supra note 18.

for the equitable allocation of reasonable dues, fees, and other charges among its participants. DTC believes that the proposed New Fee would be equitably allocated among Participants because each Participant holding Securities subject to Tax Events would be charged the same New Fee amount per Announcement. DTC believes that the proposed New Fee would be reasonable because it would allow DTC to align its revenue with its costs of providing important Tax Event information through Announcements to Participants, which information is needed by them to facilitate their compliance with applicable tax withholding obligations, as described above. Therefore, DTC believes that the proposed rule change is consistent with Section 17A(b)(3)(D) of the Act, cited above.

Section 17A(b)(3)(F) of the Act<sup>21</sup> requires, *inter alia*, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>22</sup> As described above, the proposed rule change would enhance the Distributions Service to include the distribution of Announcements for Tax Events to Participants. As described above, by providing for the distribution of Tax Event information to Participants, the proposed rule change would facilitate Participants' ability to comply with their Federal tax withholding obligations. This would further facilitate Participant's ability to continue to maintain Eligible Securities subject to Tax Events on Deposit at DTC and make use of DTC's book-entry transfer and settlement services with respect to those Securities, in accordance with DTC Rules requirements relating to the use of DTC services by Participants.<sup>23</sup> Therefore, by facilitating Participant's ability to continue to use DTC's book-entry transfer and settlement services at DTC with respect to Eligible Securities that are subject to Tax Events, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act, cited above.

#### **4. Self-Regulatory Organization's Statement on Burden on Competition**

DTC does not believe that the proposed rule change proposing to amend the Distributions Guide to provide for the announcement of Tax Events would have any impact, or impose any burden, on competition, because the information that would be provided to Participants in this regard is necessary for Participants to receive in order for them to be able to accurately perform tax accounting for their positions held at DTC, and maintain compliance with their tax withholding requirements, as described above. The addition of the New Fee could have an impact on competition because only those Participants that hold Securities subject to Tax Events would be charged the New Fee. To the extent the proposed rule change to add the New Fee to the Fee Schedule would provide for a burden on competition, DTC believes it would be necessary and appropriate under the Act because the New Fee is required to cover the cost of providing the

---

Footnote continued from previous page

<sup>21</sup> Supra note 19.

<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>23</sup> See supra note 15.

Tax Event information to Participants, which information is necessary for Participants to receive in order to facilitate their compliance with their tax withholding obligations.

**5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

DTC has not solicited and does not intend to solicit written comments regarding the proposed rule change. DTC has not received any unsolicited written comments from interested parties. To the extent DTC receives written comments on the proposed rule change, DTC will forward such comments to the Commission. DTC has discussed the proposal with Participants most likely to be affected by the proposed rule change.

**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 19(b)(7)(D)**

(a) The proposed rule changes are to take effect immediately upon filing pursuant to Section 19(b)(3)(A) of the Act<sup>24</sup> and subparagraphs (f)(2) and (f)(4)(i) of Rule 19b-4 under the Act.<sup>25</sup>

(b) The proposed change provides for the addition of a new Distributions Event type under the Distributions Service that would require (i) proposed changes to the text of the Distributions Guide that would not (A) adversely affect the safeguarding of securities or funds in the custody or control of DTC or (B) significantly affect the rights or obligations of users of DTC’s services, because these text changes would merely revise the Distributions Guide with respect to the addition of a Distributions Event that would be processed by DTC under the Distributions Service and make related technical and conforming changes, and (ii) the addition of a proposed fee to the Fee Schedule that would change a due, fee or other charge of DTC, as discussed above.

(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.

---

<sup>24</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>25</sup> 17 CFR 240.19b-4 (f)(2) and (f)(4)(i).



**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 – Proposed Changes to DTC Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-DTC-2017-018)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the DTC Distributions Guide Relating to Announcements and Tax Treatment of Certain Corporate Action Events and to Amend the DTC Fee Schedule

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 October \_\_, 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) of the Act<sup>3</sup> and Rules 19b-4(f)(2) and (f)(4) thereunder.<sup>4</sup> 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>5</sup> would (i) revise the Distributions Guide to (A) enhance the DTC Announcements feature (“Announcements”) within the DTC

---

<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)(2) and (f)(4).

<sup>5</sup> Each capitalized term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of DTC (the “DTC Rules”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx> and

Distributions Service (“Distributions Service”)<sup>6</sup> by adding new corporate action events that do not involve the payment of funds or distribution of Securities through DTC, but which may result in a taxable event for holders (“Tax Event”), as a type of distribution covered by Announcements (“Distribution Event”)<sup>7</sup> and (B) make technical and conforming changes relating to U.S. tax withholding and information reporting performed by DTC with respect to Tax Events; and (ii) add a fee relating to the announcement of Tax Events (“New Fee”) to the DTC Fee Schedule (“Fee Schedule”),<sup>8</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

---

the DTC Distributions Service Guide (“Distributions Guide”), available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Service%20Guide%20Distributions.pdf>.

<sup>6</sup> The Distributions Service includes DTC’s announcement, collection, allocation and reporting of dividend, interest and certain principal payments on behalf of Participants holding Securities at DTC. See Distributions Guide, supra note 1 at 9.

<sup>7</sup> Distribution Events covered by Announcements include cash dividends, interest, principal, capital gains, sale of rights on American depository receipts, return of capital, dividend with option, stock splits, stock dividends, automatic dividend reinvestments, spinoffs, rights distributions, pay in kind, and liquidation. Distributions Guide, supra note 1 at 12.

<sup>8</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/fee-guides/dtcfeeguide.pdf?la=en>.

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 would (i) revise the Distributions Guide to (A) enhance Announcements by adding Tax Events as a Distribution Event and (B) make technical and conforming changes relating to U.S. tax withholding and information reporting performed by DTC with respect to Tax Events; and (ii) add the New Fee to the Fee Schedule, as discussed below.

A. Distributions Service Announcements Feature

The Distributions Service includes the announcement, collection, allocation and reporting by DTC, on behalf of its Participants, of dividend, interest and principal payments for Eligible Securities held by Participants at DTC. This centralized processing provides efficiency for Participants for their receipt of (i) payment information and (ii) payments on Distribution Events, from multiple issuers and agents.<sup>9</sup> In this regard, Announcements provides Participants with information pertaining to their record date ("Record Date")<sup>10</sup> positions for Distribution Events.<sup>11</sup> This information facilitates Participants' ability to reconcile their records with DTC before the payable date ("Payable Date").<sup>12</sup>

---

<sup>9</sup> See Distributions Guide, supra note 5 at 9.

<sup>10</sup> The Record Date is the date set by an issuer of a security by which an investor must own the security in order to be eligible to receive an upcoming distribution.

<sup>11</sup> See Distributions Guide, supra note 5 at 11-13.

<sup>12</sup> The Payable Date is a date established by an issuer on which a distribution to holders will be paid by the issuer.

B. Internal Revenue Code Section 305(c)

Section 305(c) of the Internal Revenue Code<sup>13</sup> (“Section 305(c)”) states that holders of convertible securities may be deemed to have received a dividend because of a corporate action on common stock into which the convertible security may be converted.<sup>14</sup>

In the most frequent scenario relevant to Distribution Events, an issuer that pays a cash dividend to its shareholders may trigger an increase to the conversion rate (“Convertible Rate Adjustment”)<sup>15</sup> on a convertible debt Security. Under Section 305(c), this Convertible Rate Adjustment is considered as a deemed distribution.<sup>16</sup> This deemed distribution under Section 305(c)<sup>17</sup> may be subject to tax reporting by Participants, and if the convertible debt Securities are held by non-U.S. persons, the appropriate tax withholding.

---

<sup>13</sup> 26 U.S.C. 305(c).

<sup>14</sup> Under Section 305(c), a change in the conversion ratio or conversion price or a similar transaction is treated "as a distribution [by the issuer] with respect to any shareholder whose proportionate interest in the earnings and profits or assets of the corporation is increased by such change." Id.

<sup>15</sup> Such a convertible debt Security provides for a Conversion Rate Adjustment so that the conversion rate is changed if a distribution is made on the issuer's common stock. Generally, the primary purpose of a Convertible Rate Adjustment is to prevent the holder of a convertible debt Security from being diluted upon a distribution to the shareholders by adjusting the conversion rate on the stock to increase the number of shares that the debt holder can obtain in a conversion of the bond to shares of the issuer.

<sup>16</sup> Such a distribution based on dividend payments made to common shareholders will be considered to be deemed distribution to bondholders even before the bondholders convert the debt to equity.

<sup>17</sup> Supra note 14.

In April 2016, the U.S. Treasury released proposed regulations to provide guidance to financial institutions regarding their withholding and reporting obligations.<sup>18</sup> The regulations also require issuers of convertible securities to provide the amount and the timing of deemed distributions under Section 305(c) to the holders of convertible securities, i.e., DTC. Despite this reporting requirement, holders may not be directly informed of changes that have occurred in the instrument's conversion ratio or the amount of the resulting "deemed" distribution that may result in a tax withholding obligation for them. A lack of information relating to these deemed distributions and other Tax Events may affect Participants' ability to comply with applicable Federal tax withholding requirements and applicable DTC Rules requirements relating to the use of DTC services.<sup>19</sup>

C. Proposed Enhancement to Announcements Feature

Pursuant to the proposed rule change, in order to facilitate Participants' ability to comply with the requirements described above, DTC would revise the Distributions Guide to allow it to source information on Section 305(c) deemed distributions and other Tax Events for Securities on Deposit at DTC directly from issuers, and then provide the Tax Event information to Participants. DTC would distribute the Tax Event information for a deemed distribution in the same standardized manner that DTC uses to announce distributions. In this regard, DTC would revise the text of the Distributions Guide to (i) add Tax Events as a Distribution Event covered by the functionality described in the

---

<sup>18</sup> IRS-2016-0016-0001. 81 FR 21795 (April 13, 2016) (REG-133673-15).

<sup>19</sup> In connection with their use of DTC's services, Participants must comply with all applicable laws, including, but not limited to all applicable laws relating to taxation. See Rule 2, Section 8, supra note 5.

Distributions Guide and (ii) add a new section titled “Tax Event Announcements” to (a) describe and define Tax Events and Tax Event Announcements and (b) describe the systemic data fields (“Fields”) that DTC would use to provide relevant Tax Event information for a Security to Participants, including: (1) “Event Type” to be shown as “Tax Event,” (2) “Sub Event Type,” which would be used to classify the type of Tax Event, (3) Payable Date, (4) Record Date, (5) “Cash Rate,” to provide the amount of the deemed distribution, and (6) “Comments,” which would be used to provide any other pertinent information regarding the Tax Event.

D. Proposed New Fee

Pursuant to the Fee Schedule, DTC charges fees to Participants for the processing of corporate action events. Fees are established to offset the cost of processing all aspects of the applicable corporate action event, including the announcement processing, the actual processing of payments, and book-entries associated with the corporate action. Pursuant to the proposed rule change, the Fee Schedule would be revised so that a Participant that holds Securities subject to a Tax Event would be charged flat fee of \$40 per announcement. The proposed New Fee would align DTC’s revenue with costs for retrieving Tax Event information from issuers and announcing that information to Participants, as proposed. The New Fee would be added to the Fee Schedule underneath the heading for U.S. Tax Withholding, which is a feature of the Distributions Service, for reference purposes so that it would be located on the Fee Schedule in the same place as other fees charged for tax-related processing performed by DTC.

E. Processing of Tax Withholding and Information Reporting

DTC performs adjustments for entitlement and allocation activity that is outside of traditional pay date allocations. This includes activity tracking for stock loans, repos, and due bill fail tracking.<sup>20</sup> With respect to tax treatment of such adjustments, currently the text of the Distributions Guide refers to DTC's performance of U.S. tax withholding and information reporting for credit adjustments that occur with respect to Participant positions in their DTC accounts.<sup>21</sup> The proposed rule change would modify the applicable text with respect to the tax treatment described within the Due Bill Fail Tracking System, Stock Loan Income Tracking System and Repurchase Agreement (REPO) Tracking System subsections of the Adjustments Section of the Distributions Guide, to state that such withholding and reporting would also be performed related to Tax Events.

#### F. Implementation Timeframe

The proposed rule change would be implemented on October 2, 2017.

#### 2. Statutory Basis

DTC believes that the proposed rule change is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to DTC, in particular Sections 17A(b)(3)(D)<sup>22</sup> and 17A(b)(3)(F)<sup>23</sup> of the Act.

---

<sup>20</sup> See Distributions Guide, supra note 5 at 32.

<sup>21</sup> Id. at 34, 36, and 37

<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(D).

<sup>23</sup> 15 U.S.C. 78q-1(b)(3)(F).



Section 17A(b)(3)(D) of the Act<sup>24</sup> requires that the rules of the clearing agency provide for the equitable allocation of reasonable dues, fees, and other charges among its participants. DTC believes that the proposed New Fee would be equitably allocated among Participants because each Participant holding Securities subject to Tax Events would be charged the same New Fee amount per Announcement. DTC believes that the proposed New Fee would be reasonable because it would allow DTC to align its revenue with its costs of providing important Tax Event information through Announcements to Participants, which information is needed by them to facilitate their compliance with applicable tax withholding obligations, as described above. Therefore, DTC believes that the proposed rule change is consistent with Section 17A(b)(3)(D) of the Act, cited above.

Section 17A(b)(3)(F) of the Act<sup>25</sup> requires, inter alia, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>26</sup> As described above, the proposed rule change would enhance the Distributions Service to include the distribution of Announcements for Tax Events to Participants. As described above, by providing for the distribution of Tax Event information to Participants, the proposed rule change would facilitate Participants' ability to comply with their Federal tax withholding obligations. This would further facilitate Participant's ability to continue to maintain Eligible Securities subject to Tax Events on Deposit at DTC and make use of DTC's book-entry transfer and settlement services with

---

<sup>24</sup> Supra note 22.

<sup>25</sup> Supra note 23.

<sup>26</sup> 15 U.S.C. 78q-1(b)(3)(F).

respect to those Securities, in accordance with DTC Rules requirements relating to the use of DTC services by Participants.<sup>27</sup> Therefore, by facilitating Participant's ability to continue to use DTC's book-entry transfer and settlement services at DTC with respect to Eligible Securities that are subject to Tax Events, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act, cited above.

Section 17A(b)(3)(F) of the Act<sup>28</sup> requires, inter alia, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>29</sup> As described above, the proposed rule change would enhance the Distributions Service to include the distribution of Announcements for Tax Events to Participants. As described above, by providing for the distribution of Tax Event information to Participants, the proposed rule change would facilitate Participants' ability to comply with their Federal tax withholding obligations. This would further facilitate Participant's ability to continue to maintain Eligible Securities subject to Tax Events on Deposit at DTC and make use of DTC's book-entry transfer and settlement services with respect to those Securities. Therefore, by facilitating Participant's ability use DTC's book-entry transfer and settlement services at DTC with respect to Eligible Securities that are subject to Tax Events, the proposed rule change would promote the prompt and

---

<sup>27</sup> See supra note 19.

<sup>28</sup> Supra note 23.

<sup>29</sup> 15 U.S.C. 78q-1(b)(3)(F).

accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act, cited above.

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

DTC does not believe that the proposed rule change proposing to amend the Distributions Guide to provide for the announcement of Tax Events would have any impact, or impose any burden, on competition, because the information that would be provided to Participants in this regard is necessary for Participants to receive in order to be able to accurately perform tax accounting for their positions held at DTC, and maintain compliance with their tax withholding requirements, as described above. The addition of the New Fee could have an impact on competition because only those Participants that hold Securities subject to Tax Events would be charged the New Fee. To the extent the proposed rule change to add the New Fee to the Fee Schedule would provide for a burden on competition, DTC believes it would be necessary and appropriate under the Act because the New Fee is required to cover the cost of providing the Tax Event information to Participants, which information is necessary for Participants to receive in order to facilitate their compliance with their tax withholding obligations.

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

DTC has not received or solicited any written comments relating to this proposal.

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>30</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>31</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:

##### 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-2017-018 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-2017-018. 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

---

<sup>30</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>31</sup> 17 CFR 240.19b-4(f).

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-2017-018 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>32</sup>

Secretary

---

<sup>32</sup> 17 CFR 200.30-3(a)(12).

**Bold, Underlined** text indicates additions

**~~Bold strike-through~~** text indicates deletions

Exhibit 5

## Distributions Service Guide

\*\*\*

### ABOUT DISTRIBUTION SERVICES

#### Introduction

##### Overview

This guide describes DTC's income processing services which collectively fall under the Distributions event group in the Corporate Actions product. Each section includes a description of the service and how it works. All Distribution services concerning income processing can be accessed on the Corporate Actions Web browser referred to as "CA Web".

**Note:** Although DTC makes every effort to provide you with timely information regarding income payments, you are primarily responsible for obtaining such information without reliance on DTC. We recommend that you reconcile your records with DTC's in advance of dividend or interest payable dates.

##### About the Distribution Service

DTC's Distribution service includes announcing, collecting, allocating and reporting dividend, interest and certain principal payments on behalf of its participants holding DTC-eligible securities serviced by the depository. This centralized processing spares participants the burden of dealing with thousands of paying agents.

DTC accepts instructions on Distribution events when applicable. Participants may submit instructions via ISO 20022 messaging or via the CA Web.

The Distribution service also includes several optional features, such as Dividend Reinvestment, Foreign Currency Payments, Domestic Tax Reporting (DTAX), DTC TaxInfo<sup>SM</sup>, DTC TaxRelief<sup>SM</sup> and U.S. Tax Withholding.

DTC employs a harmonized, single-event data model. It includes event/sub event type combinations which differ from the function code model used in the PTS/PBS platforms. As part of the data model, DTC manages a distribution events lifecycle through one holistic corporate action event identifier (CA ID).

## Preparing to Use the Service

In order to use the Distribution services, you must have access to one of the following:

- The Participant Terminal System (PTS)
- The Corporate Actions Web (CA Web)
- Participant Browser Service (PBS)
- ISO 20022 Messages via MQ, NDM/FTP or SWIFT
- CCF (Computer-to-Computer Facility) format files

DTC offers a comprehensive overview of distribution activity comprised of Announcements, Instructions, Allocations, Adjustments and applicable alerts via CA Web's Distributions dashboard which "pushes" data to users.

Understanding the Distributions lifecycle and data model are important prerequisites for successful use of the Distributions service. DTC offers robust training resources available at its Asset Services Learning Center — <https://dtclearning.com/learning/assetservices/>

Contact your Relationship Manager for more information.

**Note:** DTC also provides various reports on SMART/Search and the ability to export data from CA Web to spreadsheets, for manipulation and analysis.



## ANNOUNCEMENTS

### How Announcements Work

- DTC retrieves information on dividend and interest payments from various sources (see [Information Sources](#))
- DTC distributes information electronically in advance of the dividend or interest payable date. This helps you reconcile your records with DTC before the payable date. Event information includes but is not limited to:
  - Corporate Action Event ID (CA ID)
  - CUSIP number
  - Record date
  - Ex date
  - Payable date
  - Due bill redemption date
  - DTC position capture date
  - Security rate
  - Cash rate
- Under the CA ID you will see event level information. Every event has at least one option. Options indicate what is available as an entitlement to eligible holders. Examples of option types include cash, securities or a mix of both. For events offering multiple options, elections can be made. In the case of Distribution events where elections can be made, there will be both a default option and one or more choice options. Within every option there will be at least one payout. A payout should be considered the actual entitlement. Entitlements can include:
  - Cash
  - Interest
  - Securities
  - Dividend reinvestment
  - Long and short term capital gains
- DTC provides its participants with information pertaining to their event record-date positions through the following delivery mechanisms:
  - Corporate Actions Web
  - Participant Terminal System (PTS) functions
  - Participant Browser Services (PBS)
  - Computer to Computer Facilities (CCF) file transmissions
  - ISO 20022 Messaging
  - SMART/Search
  - Important Notices, as necessary (available on our Web site at <http://www.dtcc.com/legal/important-notice.aspx>)

## Security Types

---

DTC announces corporate action events for security types including but not limited to the following:

- American depositary receipts (ADRs)
- Asset-backed securities (ABS)/Mortgage-backed securities (MBS)
- Collateralized mortgage obligations (CMOs)
- Corporate bonds
- Equity issues
- Equity derivatives
- Exchange-traded funds (ETFs)
- Money market instruments (MMIs)
- Municipal bonds
- Municipal variable-rate demand obligations (VRDOs)
- Private placements
- REITS/Partnerships
- Sovereign debt
- Unit investment trusts (UITs)

The following distribution events are covered in the functionality described below:

- Cash dividends (including foreign tax relief, tax reclaim, special dividends, voluntary dividend reinvestment including opt out and increase on shares)
- Interest (corporate, municipal and sovereign debt including tax relief)
- Principal
- Capital gains (short term, long term)
- Sale of rights on ADR securities
- Return of capital
- Dividend with option
- Stock splits
- Stock dividends
- Automatic dividend reinvestments
- Spinoffs
- Rights distributions
- Pay in kind
- Liquidation based on record date holdings
- **Tax Events**

## Information Sources

---

DTC receives Announcement information, both electronically and in hard-copy format, from the following:

- Issuers
- Exchanges
- Paying, transfer or remarketing agents
- Internal sources
- Trustees
- Depository banks
- Participants
- Industry vendors
- Municipal Market Data

## Tax Event Announcements

---

### Description

**Tax Event announcements are information only announcements regarding taxable events that may give rise to information and/or withholding obligations which occur even in the absence of an actual distribution of dividend and interest payments (“Tax Events”).**

### How Tax Event Announcements Work

**As the registered holder of a security, DTC often receives tax information directly from issuers, issuer’s agents, and trustees (“Tax Event Announcement”). A Tax Event Announcement leverages the announcement process to provide this information in a standardized format to help participants meet their tax withholding and reporting obligations. The announcement includes event/sub event type combinations to differentiate between different tax event types.**

### The Tax Event Announcement Feature

**The Tax Event announcement feature leverages the following data fields from other event types to provide relevant information to participants:**

- **Event Type = Tax Event**
- **Sub Event Type = field used to classify the type of Tax Event**
- **Payable Date = field used for the date of the deemed distribution**
- **Record Date = field used for position capture**
- **Cash Rate = field used for the amount of the deemed distribution or dividend equivalent payment**
- **Comments = field used to provide any other pertinent information regarding the event**

\*\*\*

## ADJUSTMENTS

### Overview

Adjustments are all entitlement/allocation activity that is outside the traditional pay date allocations. This includes all post allocation rate adjustments, and any activity tracking for stock loans, repos and due bill fail tracking.

\*\*\*

### Due Bill Fail Tracking System

#### About Due Bill Fail Tracking

The Due Bill Fail Tracking system relieves you of the time-consuming process of issuing and redeeming due bills by facilitating the settlement of due bills on failed deliver orders (DOs).

A failed DO is one which was originally scheduled to settle on or before the record date, but instead settled after the record date. Fails sometimes result in buyers not receiving a dividend or interest payment to which they are entitled. Previously such deliveries were made with a due bill attached, and handled outside of DTC between the delivering and contra parties. A due bill is an agreement that the seller will pay the dividend or interest to the bearer (the buyer) upon the actual settlement of the transaction.

\*\*\*

### Adjustments Processing

You will receive adjustments on the payable date or on the day following the failed delivery, whichever is later. You can view settled fail adjustments via CA Web, PTS/PBS for historical purposes, CCF file formats, using ISO 20022 and SMART/Search ("Miscellaneous Payments/Charges"). Both credit and debit adjustments that are attributable to non-US sourced distributions may be processed at a rate other than the gross distribution rate.

#### Tax Treatment

DTC performs the appropriate U.S. tax withholding and information reporting for credit adjustments that are settled with non-US participants **and for Tax Events if a non-U.S. participant is failing to receive a DO over a position capture date.** See **the U.S. Tax Withholding and Tax Events Announcements** sections for more information ~~on U.S. Tax withholding.~~

\*\*\*

## Stock Loan Income Tracking System

---

### About Stock Loan Income Tracking

In a stock loan agreement, the lender of the security is entitled to recover from the borrower any income distributions paid on the loaned security. The Stock Loan Income Tracking System allows DTC to track the lender's (deliverer's) position on these securities.

\*\*\*

### Tax Treatment

DTC performs **only the appropriate** U.S. tax withholding and information reporting for credit adjustments that are settled with non-U.S. participants **and for Tax Events if a non-U.S. participant has a stock loan long position on position capture date.** See the U.S. Tax Withholding ~~Error!~~ ~~Reference source not found.~~ **section for more information on U.S. Tax Withholding and Tax Event Announcements sections for more information.** As stated above, DTC is not acting as an agent or on behalf of, either the borrower or lender. Accordingly, any non-U.S. tax withholding, remittance, or information reporting obligations in respect of payments that are tracked through the Stock Loan Income Tracking service or any subsequent adjustments are the responsibility of the DTC participants that are privy to the terms of the stock loan agreements.

\*\*\*

## Repurchase Agreement (REPO) Tracking System

---

### About the Product

A repurchase agreement (REPO) is an agreement between two parties that allows the seller of securities to later repurchase them at an agreed-upon price. The seller usually retains the right to periodic income distributions. However, since the securities won't reside in the seller's account on record date, the seller would not be credited the periodic principal and income distributions paid on the securities. To recover these entitlements, the seller has to claim the REPO buyer. DTC's REPO Tracking System (RTS) automates claims of these entitlements by tracking the REPO transactions (deliveries) and adjusting the entitlement payments accordingly on payable date.

\*\*\*

### Tax Treatment

DTC performs **only the appropriate** U.S. tax withholding and information reporting for credit adjustments that are settled with non-U.S. participants **and for Tax Events if a non-U.S. participant has a long REPO position on position capture date.** **See the U.S. Tax Withholding and Tax Event Announcements sections for more information.** As stated above, DTC is not acting as an agent or on behalf of, either the buyer or the seller. Accordingly, any non-U.S. tax withholding, remittance, or information reporting obligations in respect of payments that are tracked through the REPO Tracking System are the responsibility of the DTC participants that are privy to the terms of the REPO agreements.

\*\*\*

DTC Fee Schedule

US Tax Withholding Service

\*\*\*

Fee Name	Amount(\$)	Conditions
<b><u>Tax Events</u></b>	<b>\$40</b>	<b><u>flat fee per announcement event charged to each Participant holding a security subject to a Tax Event (as defined in the DTC Distributions Service Guide).</u></b>

\*\*\*