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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 013
Amendment No. (req. for Amendments *)

Filing by The Depository Trust Company

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

- ☐ 19b-4(f)(1)
- ☐ 19b-4(f)(2)
- ☐ 19b-4(f)(3)
- ☑ 19b-4(f)(4)
- ☐ 19b-4(f)(5)
- ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

Revise the Service Guide for the Canadian-Link Service

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 * Director and 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.

Date 12/19/2018

By Lois J. Radisch

(Name *)

(Title *)

Managing Director and Deputy General Counsel

lradisch@dtcc.com

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.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS 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")[1] is annexed hereto as Exhibit 5 and consists of modifications to the text of the Procedures,[2] specifically the service guide ("Guide")[3] for the DTC Canadian-Link Service ("Canadian-Link Service"), relating to the determination of a conversion rate applied by DTC for the conversion of Canadian dollar ("CAD") amounts into the equivalent U.S. dollar ("USD") amounts.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Clearing Agency

The proposed rule change was approved by the Deputy General Counsel of DTC on December 19, 2018.

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

(a) Purpose

The proposed rule change consists of modifications to the Guide[4] relating to the determination of a conversion rate applied by DTC for the conversion of CAD amounts into the equivalent USD amounts, which DTC uses in connection with the calculation of the Collateral

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[1] Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC ("Rules"), available at www.dtcc.com/~/media/Files/Downloads/legal/rules/dtc_rules.pdf and the Guide.

[2] Pursuant to the Rules, the term "Procedures" means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 1. Pursuant to Rule 27, each Participant and DTC is bound by the Procedures and any amendment thereto in the same manner as it is bound by the Rules. See Rule 27 at 98, supra note 1.

[3] Available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Canadian_Dollar_Settlement.pdf.

[4] Supra note 3.

Value[5] of Securities delivered, and CAD funds transfers processed through, the Canadian-Link Service, as described below.

Background

In 2006, DTC established a "northbound" Canadian-Link Service that supports transactions settled in CAD.[6] Rule 30[7] describes the operation of the Canadian-Link Service, which permits DTC Participants using the Canadian Link Service ("Canadian-Link Participants") to (A) settle valued Securities transactions with participants ("CDS Participants") of The Canadian Depository for Securities Limited ("CDS") and other Canadian-Link Participants in CAD and (B) transfer CAD to or receive CAD from CDS Participants and other Canadian-Link Participants without any corresponding delivery or receipt of securities.[8]

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5 The term "Collateral Value", as used with respect to the Collateral of a Participant, means, on any Business Day, (i) with respect to the Actual Participants Fund Deposit of a Participant, the amount of such Actual Participants Fund Deposit, (ii) with respect to the Actual Preferred Stock Investment of a Participant, the amount of such Actual Preferred Stock Investment, (iii) with respect to the Net Additions of a Participant, an amount determined by applying to the Market Value of such Net Additions a percentage determined by the Corporation, in its sole discretion, and (iv) with respect to any settlement progress payments wired by a Participant to the account of the Corporation at the Federal Reserve Bank of New York in the manner specified in the Procedures, the amount of such settlement progress payments. Rule 1, Section 1 at 3, supra note 1. Net Additions in the definition of Collateral Value refers to the term "Net Addition Securities" as defined in Rule 1. The term "Net Addition Securities" (sometimes referred to as "Net Additions") of a Participant on any Business Day means (i) Securities subject of Deliveries Versus Payment to the Participant, (ii) Securities credited to the Account of the Participant (such as Deposits of Eligible Securities and Free Deliveries of Securities) and designated as Net Addition Securities by the Participant in the manner specified in the Procedures. Net Addition Securities shall cease to be such if (x) they become Pledged or Segregated Securities, (y) they are Delivered or Withdrawn by the Participant or (z) they are designated as Minimum Amount Securities by the Participant in the manner specified in the Procedures. Rule 1, Section 1 at 10, supra note 1.

6 See Securities Exchange Act Release No. 52784 (November 16, 2005), 70 FR 70902 (November 23, 2005) (SR-DTC-2005-08).

7 Supra note 1.

8 The Canadian-Link Service also provides for Cross-Border USD Securities Transactions between Participants and CDS Participants. See Rule 30, Section 1(a)(2), supra note 1. See also Securities Exchange Act Release No. 55239 (February 5, 2007), 72 FR 6798 (February 13, 2007).

The Canadian-Link Service provides Participants with a single depository interface for CAD transactions. The link facilitates Participants' ability to maintain U.S. and Canadian Security positions in their DTC accounts for securities listed in both Canada and the United States (i.e., dually listed). This eliminates the need for Participants to maintain separate positions in an eligible[9] Security in CDS for CAD settlements and in DTC for USD settlements. It also eliminates the need for Participants to reposition Securities inventory between DTC and CDS in preparation for corporate action events and or transaction processing for dually listed issues.

Transactions between Canadian-Link Participants and CDS Participants are processed through an omnibus account maintained by DTC at CDS ("DTC Omnibus Account") in accordance with the rules and procedures of CDS. Canadian-Link Participants are able (i) to deliver securities to or receive securities from CDS Participants against payment in CAD and (ii) to transfer funds to or receive funds from CDS Participants in CAD without any corresponding delivery or receipt of Securities. Transactions between Canadian-Link Participants and other Canadian-Link Participants are processed through accounts at DTC in accordance with the Rules.

For both transactions (i) between Canadian-Link Participants and CDS Participants processed through the DTC Omnibus Account and (ii) between Canadian-Link Participants and other Canadian-Link Participants processed through accounts at DTC, there is a single end-of-day CAD money settlement between DTC and its Canadian-Link Participants ("Canadian-Link Money Settlement"). For the transactions between Canadian-Link Participants and CDS Participants processed through the DTC Omnibus Account, there is a separate end-of-day CAD money settlement between CDS and DTC.

As with all valued transactions processed at DTC, DTC maintains risk controls with respect to transactions processed by Canadian-Link Participants, including the Net Debit Cap and Collateral Monitor.[10] With respect to Collateral Monitor, each Canadian-Link Participant has a single Collateral Monitor with respect to transactions processed for such Participant through the Canadian-Link Service and other transactions processed by DTC for such Participant.

In connection with CAD transactions, DTC faces the risk of USD/CAD exchange rate movements that may affect the Collateral Value relating to transactions and Securities processed

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9 DTC may determine the Securities that are eligible for the Canadian-Link Service. Some Securities may be eligible for all purposes of the Canadian-Link Service and some Securities may be eligible only for limited purposes (e.g., clearance and settlement through the facilities of CDS but only custody and asset servicing through the facilities of DTC). See Rule 30, Section 4, supra note 1.

10 The term "Collateral Monitor" of a Participant, as used with respect to its obligations to the Corporation, means, on any Business Day, the record maintained by the Corporation for the Participant which records, in the manner specified in Procedures, the algebraic sum of (i) the Net Credit or Debit Balance of the Participant and (ii) the aggregate Collateral Value of the Collateral of the Participant. Rule 1, Section 1 at 3, supra note 1.

through the Collateral Monitor. Specifically, CDS Participants' net settlement debits are expressed in CAD and DTC Collateral is expressed in USD, which presents the risk of adverse movement in the USD/CAD exchange rate which may impact the value of the Collateral Monitor.[11] To address this exchange rate risk, DTC currently uses a haircut approach applied to CAD net debits ("Haircut Approach").

The Haircut Approach uses a 3 percent fixed-rate factor. DTC converts CAD amounts into the equivalent USD amounts using a conversion rate ("Collateral Monitor Conversion Rate") that is a published rate for exchanging CAD to USD on the prior Business Day plus (in the case of CAD debits) or minus (in the case of CAD credits) the 3 percent fixed-rate factor.[12] The 3 percent fixed-rate factor is based on one-day, two-day and five-day exchange rate fluctuations over the ten years prior to implementation of the Collateral Monitor Conversion Rate.[13] At the time, DTC determined that the 3 percent fixed-rate factor adequately accounted for over 99 percent of exchange rate fluctuations during such period.[14]

The Guide provides that DTC may from time to time, if necessary, change the 3 percent fixed-rate factor ("Factor") used to calculate the Collateral Monitor Conversion Rate to appropriately account for exchange rate fluctuations.[15] DTC has recently analyzed the Haircut Approach and has determined that it is necessary to amend the Guide with respect to text describing the Factor and the Collateral Monitor Conversion Rate.

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11 For purposes of the Canadian-Link Service, the Collateral Monitor of a Canadian-Link Participant is adjusted as follows: (1) CAD net credits from transactions processed for such Participant through the Canadian-Link Service are converted into USD equivalents and added to USD net credits from other transactions processed by DTC for such Participant; (2) CAD net debits from transactions processed for such Participant through the Canadian-Link Service are converted into USD equivalents and added to USD net debits from other transactions processed by DTC for such Participant; (3) The Collateral Value of Securities delivered by such Participant to CDS Participants through the DTC Omnibus Account and the Collateral Value of Securities delivered by such Participant to other Canadian-Link Participants through accounts at DTC are converted into USD equivalents and deducted from the Collateral Value of the Collateral of such Participant; and (4) Collateral Value in USD is given for Securities received by such Participant from other Canadian-Link Participants but no Collateral Value is given for Securities received by such Participant from CDS Participants unless and until such Securities are credited to an account of such Participant at DTC. See Rule 30, Section 9, supra note 1.

12 See Guide at 6, supra note 3.

13 Id.

14 Id.

15 Id.

Proposed Rule Change

While the Guide states that DTC may change the Factor, if necessary, to account for exchange rate fluctuations, it also refers to specific criteria, as described above, that were used to determine the 3 percent fixed-rate Factor at the time the Canadian-Link Service was implemented.[16] While DTC has not changed the Factor since its implementation, the criteria originally used to determine the Factor may not continue to appropriately account for the risk of exchange rate fluctuations and their impact on the Collateral Monitor when changes to market conditions and risk management practices over time are taken into account. Therefore, DTC proposes to amend the Guide to remove specific references to (i) the Factor being established at 3 percent and (ii) references to time intervals used to calculate the Factor at the time the Canadian-Link service was established.

In addition, DTC recently adopted its Clearing Agency Model Risk Management Framework ("Framework"), which is designed to assist DTC in identifying, measuring, monitoring, and managing the risks associated with the development, implementation, use and validation of quantitative models.[17] In this regard, all models used by DTC, including that used to derive any change to the Factor used in the calculation of the Collateral Monitor Conversion Rate, must be developed, implemented, used and validated in accordance with the Framework. Therefore, DTC also proposes to amend the Guide to state that the Factor would be calculated in accordance with a methodology established by DTC, from time to time, in accordance with the Clearing Agency Model Risk Management Framework of DTC, that appropriately accounts for exchange rate fluctuations.

DTC completed the Factor model validation process according to the Framework and would calibrate the Factor no less than semi-annually as follows: Four-day exchange rate returns would be calculated for a ten-year lookback period, plus a one-year stress period[18] which would be determined by calculating the evenly weighted volatility of the four-day exchange rate returns across rolling twelve-month periods. The twelve-month period with the highest resulting volatility would be selected as the one-year stress period. In addition, four-day exchange rate returns would be calculated for a ten-year lookback period. The factor would then be derived by estimating the 0.5^{th} percentile from the combined sample of ten-year and one-year stress period returns. The factor would then be rounded up to a whole percentage.

In this regard, the Guide currently states with respect to the Factor:

"For purposes of adjustments in the collateral monitor, DTC will convert Canadian dollar amounts into the equivalent U.S. dollar amounts using a conversion rate (Collateral Monitor

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16 Id.

17 See Securities Exchange Act Release No. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017).

18 In a case of the one-year stress period overlapping the ten-year lookback period, the data used for calibration would be the ten-year period plus the non-overlapping days in the stress period.

Conversion Rate) that is a published rate for exchanging Canadian dollars to U.S. dollars on the prior business day plus (in the case of Canadian dollar debits) or minus (in the case of Canadian dollar credits) a factor of 3%. The 3% factor is based on one day, two day and five day exchange rate fluctuations over the past ten years. Such 3% factor adequately accounts for over 99% of exchange rate fluctuations during such period. DTC may from time to time if necessary change the factor used to calculate the Collateral Monitor Conversion Rate to appropriately account for exchange rate fluctuations."[19]

Pursuant to the authority currently set forth in the Guide for DTC to, from time to time if necessary, change the factor used to calculate the Collateral Monitor Conversion Rate to appropriately account for exchange rate fluctuations,[20] DTC would amend the Guide text to read:

"For purposes of adjustments in the collateral monitor, on a given Business Day, DTC converts Canadian dollar amounts into the equivalent U.S. dollar amounts using a conversion rate (Collateral Monitor Conversion Rate) that is a published rate for exchanging Canadian dollars to U.S. dollars on the prior Business Day plus (in the case of Canadian dollar debits) or minus (in the case of Canadian dollar credits) a factor ("Factor") of no less than 3%, calculated in accordance with a methodology established by DTC, from time to time, in accordance with the Clearing Agency Model Risk Management Framework of DTC, that appropriately accounts for exchange rate fluctuations. DTC will calibrate the Factor no less than semi-annually as follows: Four-day exchange rate returns will be calculated for a ten-year lookback period, plus a one-year stress period (Note: In a case where the one-year stress period overlaps with the ten-year lookback period, the data used for calibration would be the ten-year period plus the non-overlapping days in the stress period.) which will be determined by calculating the evenly weighted volatility of the four-day exchange rate returns across rolling twelve-month periods. The twelve-month period with the highest resulting volatility will be selected as the one-year stress period. In addition, four-day exchange rate returns will be calculated for a ten-year lookback period. The factor will then be derived by estimating the 0.5^{th} percentile from the combined sample of ten-year and one-year stress period returns. The factor will then be rounded up to a whole percentage. Except for extreme market conditions, the methodology and any changes in the Factor will be distributed by Important Notice at least 5 Business Days before becoming effective."

Effective Date

The proposed rule change would become effective upon filing with the Securities and Exchange Commission ("Commission").

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 ("Act") requires that the rules of the clearing agency be designed, inter alia, to promote the prompt and accurate clearance

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19 See Guide, supra note 1 at 6.

20 Id.

and settlement of securities transactions.[21] DTC believes that the proposed rule change is consistent with this provision of the Act because, by revising the Guide to update the description of how changes to the Factor would be made in light of DTC's adoption of the Framework, the proposed rule change would facilitate Participants' ability to understand the calculation of the Collateral Monitor Conversion Rate and its impact on risk controls relating to their transaction activity. Therefore, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions consistent with Section 17A(b)(3)(F) of the Act.[22]

4. Clearing Agency's Statement on Burden on Competition

DTC does not believe that the proposed rule change would have any impact on competition. The proposed rule change would merely update the Guide with respect to existing Procedures relating to DTC's discretion to change the Factor as necessary to account for exchange rate fluctuations.[23] The proposed change would reflect that any change in the Factor would be made pursuant to a methodology established in accordance with the Framework, which is a Procedure previously approved by the Commission.[24] Therefore, the proposed rule change would not affect the rights or obligations of Participants, and as such, would not impact competition.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

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) The proposed rule change is to take effect immediately upon filing pursuant to Section 19(b)(3)(A) of the Act[25] and Rule 19b-4(f)(4) under the Act.[26]

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21 15 U.S.C. 78q-1(b)(3)(F).

22 Id.

23 See Guide at 6, supra note 3.

24 Supra note 17.

25 15 U.S.C. 78s(b)(3)(A).

26 17 CFR 240.19b-4(f)(4).

(b) In accordance with subparagraph (f)(4) of Rule 19b-4 under the Act, the proposed rule change effects a change in an existing DTC service that would not (i) adversely affect the safeguarding of securities or funds in the custody or control of DTC or for which DTC is responsible or (ii) significantly affect any securities clearing operations of DTC or any rights or obligations of DTC with respect to securities clearing or users of DTC's services.[27] With respect to (i), as set forth above, the proposed change to the text of the Guide would not allow for a reduction of the Factor from the current percentage of 3%, which reduction could otherwise adversely impact securities or funds under DTC's control in the event of a material change in the exchange rate that is unfavorable to DTC and its Participants. With respect to (b) above, the proposed change would not significantly affect any securities clearing operations of DTC or any rights or obligations of DTC with respect to securities clearing or users of DTC's services because, as described above, it would not change DTC's rights or obligations under the Rules, but would merely provide Participants with enhanced transparency with respect to DTC's Procedures for determination of the Factor.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

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 Change to the Rules

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27 Id.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_________]; File No. SR-DTC-2018-013)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Service Guide for the Canadian-Link Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on December 19, 2018, 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[3] and Rule 19b-4(f)(4) thereunder.[4] The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

4 17 CFR 240.19b-4(f)(4).

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change of DTC[5] consists of modifications to the text of the Procedures,[6] specifically the service guide ("Guide")[7] for the DTC Canadian-Link Service ("Canadian-Link Service"), relating to the determination of a conversion rate applied by DTC for the conversion of Canadian dollar ("CAD") amounts into the equivalent U.S. dollar ("USD") amounts.

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.

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[5] Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC ("Rules"), available at www.dtcc.com/~/media/Files/Downloads/legal/rules/dtc_rules.pdf and the Guide.

[6] Pursuant to the Rules, the term "Procedures" means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 5. Pursuant to Rule 27, each Participant and DTC is bound by the Procedures and any amendment thereto in the same manner as it is bound by the Rules. See Rule 27 at 98, supra note 5.

[7] Available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Canadian_Dollar_Settlement.pdf.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change consists of modifications to the Guide[8] relating to the determination of a conversion rate applied by DTC for the conversion of CAD amounts into the equivalent USD amounts, which DTC uses in connection with the calculation of the Collateral Value[9] of Securities delivered, and CAD funds transfers processed through, the Canadian-Link Service, as described below.

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8 Id.

9 The term "Collateral Value", as used with respect to the Collateral of a Participant, means, on any Business Day, (i) with respect to the Actual Participants Fund Deposit of a Participant, the amount of such Actual Participants Fund Deposit, (ii) with respect to the Actual Preferred Stock Investment of a Participant, the amount of such Actual Preferred Stock Investment, (iii) with respect to the Net Additions of a Participant, an amount determined by applying to the Market Value of such Net Additions a percentage determined by the Corporation, in its sole discretion, and (iv) with respect to any settlement progress payments wired by a Participant to the account of the Corporation at the Federal Reserve Bank of New York in the manner specified in the Procedures, the amount of such settlement progress payments. Rule 1, Section 1 at 3, supra note 5. Net Additions in the definition of Collateral Value refers to the term "Net Addition Securities" as defined in Rule 1. The term "Net Addition Securities" (sometimes referred to as "Net Additions") of a Participant on any Business Day means (i) Securities subject of Deliveries Versus Payment to the Participant, (ii) Securities credited to the Account of the Participant (such as Deposits of Eligible Securities and Free Deliveries of Securities) and designated as Net Addition Securities by the Participant in the manner specified in the Procedures. Net Addition Securities shall cease to be such if (x) they become Pledged or Segregated Securities, (y) they are Delivered or Withdrawn by the Participant or (z) they are designated as Minimum Amount Securities by the Participant in the manner specified in the Procedures. Rule 1, Section 1 at 10, supra note 5.

Background

In 2006, DTC established a "northbound" Canadian-Link Service that supports transactions settled in CAD.[10] Rule 30[11] describes the operation of the Canadian-Link Service, which permits DTC Participants using the Canadian Link Service ("Canadian-Link Participants") to (A) settle valued Securities transactions with participants ("CDS Participants") of The Canadian Depository for Securities Limited ("CDS") and other Canadian-Link Participants in CAD and (B) transfer CAD to or receive CAD from CDS Participants and other Canadian-Link Participants without any corresponding delivery or receipt of securities.[12]

The Canadian-Link Service provides Participants with a single depository interface for CAD transactions. The link facilitates Participants' ability to maintain U.S. and Canadian Security positions in their DTC accounts for securities listed in both Canada and the United States (i.e., dually listed). This eliminates the need for Participants to maintain separate positions in an eligible[13] Security in CDS for CAD settlements and in DTC for USD settlements. It also eliminates the need for Participants

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[10] See Securities Exchange Act Release No. 52784 (November 16, 2005), 70 FR 70902 (November 23, 2005) (SR-DTC-2005-08).

[11] Supra note 5.

[12] The Canadian-Link Service also provides for Cross-Border USD Securities Transactions between Participants and CDS Participants. See Rule 30, Section 1(a)(2), supra note 5. See also Securities Exchange Act Release No. 55239 (February 5, 2007), 72 FR 6798 (February 13, 2007).

[13] DTC may determine the Securities that are eligible for the Canadian-Link Service. Some Securities may be eligible for all purposes of the Canadian-Link Service and some Securities may be eligible only for limited purposes (e.g., clearance and settlement through the facilities of CDS but only custody and asset servicing through the facilities of DTC). See Rule 30, Section 4, supra note 5.

to reposition Securities inventory between DTC and CDS in preparation for corporate action events and or transaction processing for dually listed issues.

Transactions between Canadian-Link Participants and CDS Participants are processed through an omnibus account maintained by DTC at CDS ("DTC Omnibus Account") in accordance with the rules and procedures of CDS. Canadian-Link Participants are able (i) to deliver securities to or receive securities from CDS Participants against payment in CAD and (ii) to transfer funds to or receive funds from CDS Participants in CAD without any corresponding delivery or receipt of Securities. Transactions between Canadian-Link Participants and other Canadian-Link Participants are processed through accounts at DTC in accordance with the Rules.

For both transactions (i) between Canadian-Link Participants and CDS Participants processed through the DTC Omnibus Account and (ii) between Canadian-Link Participants and other Canadian-Link Participants processed through accounts at DTC, there is a single end-of-day CAD money settlement between DTC and its Canadian-Link Participants ("Canadian-Link Money Settlement"). For the transactions between Canadian-Link Participants and CDS Participants processed through the DTC Omnibus Account, there is a separate end-of-day CAD money settlement between CDS and DTC.

As with all valued transactions processed at DTC, DTC maintains risk controls with respect to transactions processed by Canadian-Link Participants, including the Net Debit Cap and Collateral Monitor.[14] With respect to Collateral Monitor, each Canadian-

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[14] The term "Collateral Monitor" of a Participant, as used with respect to its obligations to the Corporation, means, on any Business Day, the record maintained by the Corporation for the Participant which records, in the manner

Link Participant has a single Collateral Monitor with respect to transactions processed for such Participant through the Canadian-Link Service and other transactions processed by DTC for such Participant.

In connection with CAD transactions, DTC faces the risk of USD/CAD exchange rate movements that may affect the Collateral Value relating to transactions and Securities processed through the Collateral Monitor. Specifically, CDS Participants' net settlement debits are expressed in CAD and DTC Collateral is expressed in USD, which presents the risk of adverse movement in the USD/CAD exchange rate which may impact the value of the Collateral Monitor.[15] To address this exchange rate risk, DTC currently uses a haircut approach applied to CAD net debits ("Haircut Approach").

The Haircut Approach uses a 3 percent fixed-rate factor. DTC converts CAD amounts into the equivalent USD amounts using a conversion rate ("Collateral Monitor

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specified in Procedures, the algebraic sum of (i) the Net Credit or Debit Balance of the Participant and (ii) the aggregate Collateral Value of the Collateral of the Participant. Rule 1, Section 1 at 3, supra note 5.

[15] For purposes of the Canadian-Link Service, the Collateral Monitor of a Canadian-Link Participant is adjusted as follows: (1) CAD net credits from transactions processed for such Participant through the Canadian-Link Service are converted into USD equivalents and added to USD net credits from other transactions processed by DTC for such Participant; (2) CAD net debits from transactions processed for such Participant through the Canadian-Link Service are converted into USD equivalents and added to USD net debits from other transactions processed by DTC for such Participant; (3) The Collateral Value of Securities delivered by such Participant to CDS Participants through the DTC Omnibus Account and the Collateral Value of Securities delivered by such Participant to other Canadian-Link Participants through accounts at DTC are converted into USD equivalents and deducted from the Collateral Value of the Collateral of such Participant; and (4) Collateral Value in USD is given for Securities received by such Participant from other Canadian-Link Participants but no Collateral Value is given for Securities received by such Participant from CDS Participants unless and until such Securities are credited to an account of such Participant at DTC. See Rule 30, Section 9, supra note 5.

Conversion Rate") that is a published rate for exchanging CAD to USD on the prior Business Day plus (in the case of CAD debits) or minus (in the case of CAD credits) the 3 percent fixed-rate factor.[16] The 3 percent fixed-rate factor is based on one-day, two-day and five-day exchange rate fluctuations over the ten years prior to implementation of the Collateral Monitor Conversion Rate.[17] At the time, DTC determined that the 3 percent fixed-rate factor adequately accounted for over 99 percent of exchange rate fluctuations during such period.[18]

The Guide provides that DTC may from time to time, if necessary, change the 3 percent fixed-rate factor ("Factor") used to calculate the Collateral Monitor Conversion Rate to appropriately account for exchange rate fluctuations.[19] DTC has recently analyzed the Haircut Approach and has determined that it is necessary to amend the Guide with respect to text describing the Factor and the Collateral Monitor Conversion Rate.

Proposed Rule Change

While the Guide states that DTC may change the Factor, if necessary, to account for exchange rate fluctuations, it also refers to specific criteria, as described above, that were used to determine the 3 percent fixed-rate Factor at the time the Canadian-Link Service was implemented.[20] While DTC has not changed the Factor since its

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16 See Guide at 6, supra note 7.

17 Id.

18 Id.

19 Id.

20 Id.

implementation, the criteria originally used to determine the Factor may not continue to appropriately account for the risk of exchange rate fluctuations and their impact on the Collateral Monitor when changes to market conditions and risk management practices over time are taken into account. Therefore, DTC proposes to amend the Guide to remove specific references to (i) the Factor being established at 3 percent and (ii) references to time intervals used to calculate the Factor at the time the Canadian-Link service was established.

In addition, DTC recently adopted its Clearing Agency Model Risk Management Framework ("Framework"), which is designed to assist DTC in identifying, measuring, monitoring, and managing the risks associated with the development, implementation, use and validation of quantitative models.[21] In this regard, all models used by DTC, including that used to derive any change to the Factor used in the calculation of the Collateral Monitor Conversion Rate, must be developed, implemented, used and validated in accordance with the Framework. Therefore, DTC also proposes to amend the Guide to state that the Factor would be calculated in accordance with a methodology established by DTC, from time to time, in accordance with the Clearing Agency Model Risk Management Framework of DTC, that appropriately accounts for exchange rate fluctuations.

DTC completed the Factor model validation process according to the Framework and would calibrate the Factor no less than semi-annually as follows: Four-day exchange rate returns would be calculated for a ten-year lookback period, plus a one-year stress

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[21] See Securities Exchange Act Release No. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017).

period[22] which would be determined by calculating the evenly weighted volatility of the four-day exchange rate returns across rolling twelve-month periods. The twelve-month period with the highest resulting volatility would be selected as the one-year stress period. In addition, four-day exchange rate returns would be calculated for a ten-year lookback period. The factor would then be derived by estimating the 0.5th percentile from the combined sample of ten-year and one-year stress period returns. The factor would then be rounded up to a whole percentage.

In this regard, the Guide currently states with respect to the Factor:

"For purposes of adjustments in the collateral monitor, DTC will convert Canadian dollar amounts into the equivalent U.S. dollar amounts using a conversion rate (Collateral Monitor Conversion Rate) that is a published rate for exchanging Canadian dollars to U.S. dollars on the prior business day plus (in the case of Canadian dollar debits) or minus (in the case of Canadian dollar credits) a factor of 3%. The 3% factor is based on one day, two day and five day exchange rate fluctuations over the past ten years. Such 3% factor adequately accounts for over 99% of exchange rate fluctuations during such period. DTC may from time to time if necessary change the factor used to calculate the Collateral Monitor Conversion Rate to appropriately account for exchange rate fluctuations."[23]

Pursuant to the authority currently set forth in the Guide for DTC to, from time to time if necessary, change the factor used to calculate the Collateral Monitor Conversion

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22 In a case of the one-year stress period overlapping the ten-year lookback period, the data used for calibration would be the ten-year period plus the non-overlapping days in the stress period.

23 See Guide at 6, supra note 3.

Rate to appropriately account for exchange rate fluctuations,[24] DTC would amend the Guide text to read:

"For purposes of adjustments in the collateral monitor, on a given Business Day, DTC converts Canadian dollar amounts into the equivalent U.S. dollar amounts using a conversion rate (Collateral Monitor Conversion Rate) that is a published rate for exchanging Canadian dollars to U.S. dollars on the prior Business Day plus (in the case of Canadian dollar debits) or minus (in the case of Canadian dollar credits) a factor ("Factor") of no less than 3%, calculated in accordance with a methodology established by DTC, from time to time, in accordance with the Clearing Agency Model Risk Management Framework of DTC, that appropriately accounts for exchange rate fluctuations. DTC will calibrate the Factor no less than semi-annually as follows: Four-day exchange rate returns will be calculated for a ten-year lookback period, plus a one-year stress period (Note: In a case where the one-year stress period overlaps with the ten-year lookback period, the data used for calibration would be the ten-year period plus the non-overlapping days in the stress period.) which will be determined by calculating the evenly weighted volatility of the four-day exchange rate returns across rolling twelve-month periods. The twelve-month period with the highest resulting volatility will be selected as the one-year stress period. In addition, four-day exchange rate returns will be calculated for a ten-year lookback period. The factor will then be derived by estimating the 0.5th percentile from the combined sample of ten-year and one-year stress period returns. The factor will then be rounded up to a whole percentage. Except for extreme

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24 Id.

market conditions, the methodology and any changes in the Factor will be distributed by Important Notice at least 5 Business Days before becoming effective."

Effective Date

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

2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires that the rules of the clearing agency be designed, inter alia, to promote the prompt and accurate clearance and settlement of securities transactions.[25] DTC believes that the proposed rule change is consistent with this provision of the Act because, by revising the Guide to update the description of how changes to the Factor would be made in light of DTC's adoption of the Framework, the proposed rule change would facilitate Participants' ability to understand the calculation of the Collateral Monitor Conversion Rate and its impact on risk controls relating to their transaction activity. Therefore, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions consistent with Section 17A(b)(3)(F) of the Act.[26]

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

DTC does not believe that the proposed rule change would have any impact on competition. The proposed rule change would merely update the Guide with respect to existing Procedures relating to DTC's discretion to change the Factor as necessary to

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[25] 15 U.S.C. 78q-1(b)(3)(F).

[26] Id.

account for exchange rate fluctuations.[27] The proposed change would reflect that any change in the Factor would be made pursuant to a methodology established in accordance with the Framework, which is a Procedure previously approved by the Commission.[28] Therefore, the proposed rule change would not affect the rights or obligations of Participants, and as such, would not impact competition.

(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[29] and paragraph (f) of Rule 19b-4 thereunder.[30] 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.

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[27] See Guide at 6, supra note 7.

[28] Supra note 21.

[29] 15 U.S.C. 78s(b)(3)(A).

[30] 17 CFR 240.19b-4(f).

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. Please include File Number SR-DTC-2018-013 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-2018-013. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2018-013 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.[31]

Secretary

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[31] 17 CFR 200.30-3(a)(12).

Exhibit 5

<u>Bold, underlined</u> text indicates additions.

~~**Bold strikethrough**~~ text indicates deletions.

Canadian Link Service

Service Guide

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3 Northbound Deliver Orders (DTC Participant to CDS broker or custodian)

On or prior to settlement date, a DTC participant can submit a deliver order (DO)[1] to DTC (see 7.1.2). Based on the delivery instruction submitted by the participant, DTC formats a delivery instruction and forwards the instruction to CDS for confirmation. CDS reports the transaction to the CDS receiving participant. The CDS receiver can confirm the transaction, DK the transaction, or take no action. Each time the status of a transaction changes, CDS reports the change to DTC and DTC reports the change to the DTC participant. Transactions that are cancelled (only the initiator can cancel a transaction) will be immediately changed to a cancelled status and will be purged from DTC's and CDS' systems at the end of the day. Transactions that are not confirmed by settlement date will remain in the CDS matching system for 10 calendar days after the settlement date or the entry date (whichever is greater). Confirmed transactions will be queued for settlement on settlement date.

On settlement date, DTC generates a free transaction to move the position from the initiating participant's DTC account to the CDS omnibus account at DTC (5099). Participants will see this transaction as a delivery from their participant number to the 5099 account in the ART function and all other DTC output. Participants will be able to distinguish between a Canadian dollar delivery and an existing free delivery to 5099 based on the reason code. The Canadian dollar delivery will have a reason code 700. The free transaction generated by DTC contains the DTC Settlement account (DTCS) in the third-party field. If the delivering participant does not have sufficient position or collateral to complete the transaction to the 5099 account in DTC's system, the transaction recycles in DTC.

If the DTC participant has sufficient position and collateral to complete the delivery to the 5099 account, the DTC participant receives a made message from DTC via existing DTC transaction output. This made message only represents the completion of the position movement from the DTC participant to the DTC omnibus account and does not represent the completion of the delivery in the CDS system. When the delivery from the DTC participant completes to the 5099 account in DTC's system, a message is sent to CDS, which "flips" the position from the DTC Inventory account (DTCZ) to the DTCS account in CDS. This delivery generates a second delivery from the DTCS account in CDS to the ultimate CDS receiver. As a result, the CDS receiver will see a delivery from the DTCS account with the DTC delivering participant referenced in the deliverer's 3rd party field.

[1] The DTC delivering participant may also submit a confirm or DK if the CDS receiving participant already submitted a receive instruction to the DTC delivering participant.

If the CDS receiver has sufficient collateral and debit cap in the CDS system to accept the receive transaction, the delivery from the DTCS account to the CDS participant completes. Participants that accept ISO 15022 messages will receive a 15022 “made” (MT 547) message as notification that the transaction completed in CDS and the transaction will appear with a made status on the CDL “Participant Trade Instructions” screen (see 26.1.4). DTC processes a collateral monitor increase to the DTC participant for the U.S. equivalent of the Canadian dollar settlement value of the deliver order[2].

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2 For purposes of adjustments in the collateral monitor, **on a given Business Day,** DTC ~~**will**~~ convert**s** Canadian dollar amounts into the equivalent U.S. dollar amounts using a conversion rate (Collateral Monitor Conversion Rate) that is a published rate for exchanging Canadian dollars to U.S. dollars on the prior ~~**business day**~~ **Business Day** plus (in the case of Canadian dollar debits) or minus (in the case of Canadian dollar credits) a factor **(“Factor”)** of **no less than** 3%**, calculated in accordance with a methodology established by DTC, from time to time, in accordance with the Clearing Agency Model Risk Management Framework of DTC, that appropriately accounts for exchange rate fluctuations**. **DTC will calibrate the Factor no less than semi-annually as follows: Four-day exchange rate returns will be calculated for a ten-year lookback period, plus a one-year stress period (Note: In a case where the one-year stress period overlaps with the ten-year lookback period, the data used for calibration would be the ten-year period plus the non-overlapping days in the stress period.) which will be determined by calculating the evenly weighted volatility of the four-day exchange rate returns across rolling twelve-month periods. The twelve-month period with the highest resulting volatility will be selected as the one-year stress period. In addition, four-day exchange rate returns will be calculated for a ten-year lookback period. The factor will then be derived by estimating the 0.5th percentile from the combined sample of ten-year and one-year stress period returns. The factor will then be rounded up to a whole percentage. Except for extreme market conditions, the methodology and any changes in the Factor will be distributed by Important Notice at least 5 Business Days before becoming effective.** ~~**The 3% factor is based on one day, two day and five day exchange rate fluctuations over the past ten years. Such 3% factor adequately accounts for over 99% of exchange rate fluctuations during such period. DTC may from time to time if necessary change the factor used to calculate the Collateral Monitor Conversion Rate to appropriately account for exchange rate fluctuations.**~~