

# The Depository Trust Company

# **IMPORTANT**

**B#:** B3862-08

**DATE:** August 27, 2008

**TO:** All Participants

**CATEGORY:** Compliance

**FROM:** General Counsel's Office

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

**SUBJECT:** Proposed Rule Change - Increase the Liquidity Resources of The Depository Trust Company (SR-DTC-2008-12)

The Depository Trust Company ("DTC") filed a rule change with the Securities and Exchange Commission ("SEC"), pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934. The purpose of the proposed rule change is to increase DTC's liquidity resources.

The proposed rule change is to increase the liquidity resources of DTC to ensure it has sufficient liquidity to cover the failure of a financial family of affiliated DTC Participants ("Affiliated Family")<sup>1</sup>. Affiliated Family means, collectively, each Participant that controls or is controlled by another Participant and each Participant that is under the common control of any Person. For purposes of this definition, "control" means the direct or indirect ownership of more than 50% of the voting securities or other voting interests of any Person<sup>2</sup>. In order to obtain this goal, DTC is proposing (i) an increase of \$700 million in the cash deposits to DTC's all-cash Participants Fund, so that the aggregate amount of the required deposits to DTC's Participant Fund and the required preferred stock investments of Participants will be increased to \$1.3 billion from \$600

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<sup>1</sup> DTC currently has 332 Participants, most of which are broker/dealers or banks with one Participant account. Large integrated organizations, however, typically have several "legal entities" that have DTC participation; for example, a bank custodian entity and a separate securities firm entity.

<sup>2</sup> Under this definition, DTC currently has 47 Affiliated Families.

million, and (ii) limiting the aggregate maximum net debit cap<sup>3</sup> for any Affiliated Family to \$3 billion.

To ensure that DTC is able to complete its settlement obligations each day in the event of a Participant's inability to settle with DTC, DTC currently maintains liquidity resources of \$2.5 billion, including a \$600 million all-cash Participants Fund and a committed line of credit in the amount of \$1.9 billion, recently increased from \$1.4 billion, with a consortium of banks. Given that financial firms have become increasingly interdependent, DTC recognizes that there is a possibility of "contagion" among several related Participant accounts -- that is, that financial problems at one account may impact the stability of another, related account, potentially causing both to fail simultaneously. DTC's bank regulators have expressed concern about this potential and, in response DTC and its bank regulators have agreed that DTC should increase its liquidity resources available to withstand the failure of a financial family of affiliated DTC Participants. In order to address these concerns, DTC is proposing to increase its liquidity resources to \$3.2 billion, by increasing the required DTC Participants Fund to \$1.3 billion and limiting the aggregate net debit cap of an Affiliated Family to \$3 billion.<sup>4</sup>

The full text of the proposed rule filing can be found at the following link: [http://www.dtcc.com/downloads/legal/rule\\_filings/2008/dtc/2008-12.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2008/dtc/2008-12.pdf) or on DTC's public website, [www.dtc.org](http://www.dtc.org). Written comments on the changes may be addressed to Diane L. Brennan, 55 Water Street, 22<sup>nd</sup> Floor, New York, N.Y. 10041; any such comments will be forwarded to the SEC. Written comments may also be addressed to the SEC at 100 F Street, N.E., Washington, D.C. 20549-9303. We request that you provide a copy of any such comments to DTC.

Questions regarding the rule filing may also be directed to Diane L. Brennan at (212) 855-3320.

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<sup>3</sup> DTC ensures that timely settlement can be completed in the event of an inability to settle by a Participant with the largest settlement obligation, by setting limits (called net debit caps) for each Participant. A Participant's net debit is limited throughout the processing day to a net debit cap that is the lesser of four amounts: (1) a net debit cap based on the average of the three largest net debits that the Participant incurs over a rolling 70 business day period, (2) an amount, if any, determined by the Participant's settling bank, (3) an amount, if any, determined by DTC or (4) \$1.8 billion.

<sup>4</sup> In accordance with our current practice, DTC would maintain a liquidity cushion of \$200 million to allow for the possible failure or unavailability of funds from the largest bank commitment under DTC's line.