

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-90805; File No. SR-DTC-2020-020)

December 28, 2020

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Add a Fee for the New ClaimConnect™ Service

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 December 18, 2020, 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 Rule 19b-4(f)(2) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

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

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

The proposed rule change<sup>5</sup> consists of amendments to the Guide to the DTC Fee Schedule ("Fee Guide")<sup>6</sup> to add a fee for the new ClaimConnect service at DTC,<sup>7</sup> as described in greater detail below.

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to amend the Fee Guide to add a fee for the new ClaimConnect service at DTC.

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<sup>5</sup> Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC ("Rules") available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf), or in the ClaimConnect™ Service Guide available at <https://www.dtcc.com/~media/Files/Downloads/legal/service-guides/ClaimConnect.pdf>.

<sup>6</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/fee-guides/dtcfeeguide.pdf>.

<sup>7</sup> See Securities Exchange Act Release No. 90481 (November 23, 2020), 85 FR 76640 (November 30, 2020) (SR-DTC-2020-012) ("Approval Order").

ClaimConnect, an optional DTC service, enables Participants to bilaterally match and settle cash claim transactions at DTC.<sup>8</sup> More specifically, ClaimConnect is a validation and matching engine that continually monitors claims throughout their lifecycle in order to settle and close claims through DTC’s settlement process. Claims can be matched manually (i.e., Affirmed) by ClaimConnect users or automatically (i.e., Auto-matched) by the ClaimConnect service when it matches two like claims based on the alignment of certain data elements. Once matched, claims are settled through systematic Securities Payment Orders (“SPOs”) generated and submitted by ClaimConnect at set times intraday on a settlement date.<sup>9</sup>

With this proposed rule change, DTC is establishing a ClaimConnect matching fee of a \$1.75 per side, per-matched claim, whether or not the claim is Affirmed or Auto-matched. In other words, both parties to a matched claim will be charged \$1.75, such that DTC would collect \$3.50 for each matched claim.<sup>10</sup> No charge will be assessed for claims that do not match (e.g., Uncompared, DK-uncompared, or Canceled claims).<sup>11</sup>

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<sup>8</sup> With respect to ClaimConnect, a cash claim or cash claim transaction is a cash entitlement (i.e., a request for cash) from one Participant to another Participant. Typically, cash claims arise as a result of trading exceptions from a Corporate Action event, where a cash entitlement needs to be delivered from one holder to another. Trading exceptions include, but are not limited to, trades outside of the market’s agreed upon settlement cycle, lack of due bill fail tracking, stock loan or repo transaction discrepancy, or tax treaty differences.

<sup>9</sup> See ClaimConnect Service Guide, supra note 5.

<sup>10</sup> Separate from ClaimConnect, an existing SPO fee of \$.10 per side, per SPO will continue to be charged. Fee ID 186, Fee Guide, supra note 6.

<sup>11</sup> See ClaimConnect Service Guide, supra note 5, regarding claim states.

This per-side matching fee for claims processing will be new for Participants that use Asset Services products. In choosing this fee and fee structure, DTC considered various factors. First, DTC followed its pricing policy of setting fees at cost plus a low-margin markup. The “low-margin markup” is applied to recover development costs and operating expenses, and to accumulate capital sufficient to meet regulatory and economic requirements. In consideration of that policy, the aggregate amount of \$3.50 per-matched claim will help facilitate a four-year return on investment for DTC’s creation of ClaimConnect and help cover continued operating expenses for the service. Second, the per-side structure was chosen to allocate the cost evenly between a claim’s two counterparties. Third, in order to align charges for the ClaimConnect service with Participants’ actual usage of the service, the fee was structured as a per-usage fee (i.e., per-matched claim) instead of a flat monthly or annual fixed-rate fee. Fourth, in setting the fee, DTC was mindful that, although there are no competing services, Participants could choose not to use ClaimConnect and continue to settle claims as they did prior to ClaimConnect (e.g., using internal/proprietary systems, third-party software, or some combination thereof). Fifth, DTC evaluated its existing Stock, Loan, Repo & Fail Adjustments fee that DTC charges Participants for such entitlement/allocation adjustment activity (“Adjustment Service Fee”), similar to a cash claim.<sup>12</sup> There, DTC charges a \$1.50 per adjustment, not per side. In other words, whichever party submits an adjustment is charged \$1.50. However, because there is no validation and matching process for adjustments, unlike with ClaimConnect claims, counterparties often need to

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<sup>12</sup> Fee ID 709, Fee Guide, supra note 6.

submit multiple adjustments between each other before reaching final agreement; thus, the total adjustment cost routinely exceeds \$3.50.

#### *Changes to the Fee Guide*

To effectuate the ClaimConnect fee, the Corporate Action subsection of the Custody and Securities Processing section of the Fee Guide will be updated to include a ClaimConnect Matching Fee of \$1.75, per each claim side after matching.

#### *Implementation Timeframe*

The ClaimConnect fee will be added to the 2021 Fee Guide and charged beginning January 1, 2021.

#### 2. Statutory Basis

Section 17A(b)(3)(D) of the Act requires that DTC's Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Participants.<sup>13</sup> DTC believes that the ClaimConnect fee is consistent with this provision of the Act.

As described above, the ClaimConnect service is an optional service that was developed based on discussions with Participants to enable them to bilaterally match and settle cash claim transactions at DTC.<sup>14</sup> Pursuant to this proposed rule change, DTC is establishing an aggregate fee of \$3.50 per-matched claim. DTC believes the fee is equitably allocated because, as described above, the fee will be divided evenly between the two counterparties to a claim, such that each side of the claim will be charge \$1.75 per-matched claim, which reflects the counterparties' shared usage of the service in settling a claim.

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

<sup>14</sup> See Approval Order, supra note 7.

DTC believes the fee is reasonable because, as described above, (i) it is consistent with DTC's cost plus low-margin markup pricing policy; (ii) it is expected to produce a four-year return on DTC's investment in developing ClaimConnect, compared to a higher fee that would produce a quicker return, while helping cover continued operating expenses for the service; (iii) it is structured so that both parties to a claim pay the same amount; (iv) it is structured to align charges for the service with actual usage of the service; and (v) it was set in consideration of a similar, existing fee (i.e., the Adjustment Service Fee) but knowing that parties to a claim will not need to submit additional claims and pay additional ClaimConnect fees to reach agreement on a claim, given the service's validation and matching process.

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

DTC does not believe that the ClaimConnect fee will have any impact on competition.

As described above, DTC believes that the proposed fee is equitable, reasonable, and on par with fees for other DTC services (e.g., the Adjustment Service Fee) already used by Participants. As such, there is no expectation that this particular fee would cause any competitive advantages or disadvantages among Participants. Moreover, although there is no service in direct competition with ClaimConnect, Participants are able to settle their cash claims without using ClaimConnect, as they did prior to DTC establishing the service. As such, it will be up to Participants to decide whether settling claims via the ClaimConnect service is worth the cost. If a Participant concludes that the manner in which it was settling claims prior to ClaimConnect (e.g., using internal/proprietary systems, a third-party software, or some combination thereof) is preferable (whether due

to cost, functionality, or some other factor), then the Participant can simply choose not to use ClaimConnect and continue to settle claims away from DTC. Given this optionality, DTC believes that the proposed fee should not place any Participants at a relative disadvantage compared to other Participants.

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

Written comments relating to this proposed rule change have not been solicited or received. 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)<sup>15</sup> of the Act and paragraph (f)<sup>16</sup> of Rule 19b-4 thereunder. 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:

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

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

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-2020-020 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-2020-020. 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-2020-020 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>17</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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