SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-91736; File No. SR-DTC-2021-007)

April 30, 2021

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to update the DTC Corporate Actions Distributions Service Guide

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 April 20, 2021, 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.

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

The proposed rule change consists of changes to the rules of DTC ("Rules"), as described in greater detail below.[5]

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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).

5 Terms not defined herein are defined in the Rules, available at http://dtcc.com/~/media/Files/Downloads/legal/rules/dtc_rules.pdf.

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

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) <u>Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

1. <u>Purpose</u>

This proposed rule change would update the DTC Corporate Actions Distributions Service Guide ("Distributions Guide") to (i) direct Participants to use DTC's ClaimConnect^{TM} service instead of DTC's Adjustment Payment Order ("APO") service to make manual, Participant-to-Participant, cash adjustment claims to principle and interest ("P&I") payments on stock loan and repurchase agreement ("repo") positions (hereinafter, "manual adjustments"), and (ii) correct a misspelled word in the Distributions Guide.

Currently, the APO service is used, among other things, to make manual adjustments. A manual adjustment is one that is initiated by one of the parties (i.e., a Participant) to a stock loan or repo against the other party (i.e., another Participant), as compared to an automated adjustment made directly by DTC. A manual adjustment can be necessary where, for example, there is a transaction discrepancy with the stock loan or repo, or an agreement between the parties provides for an adjustment unknown to DTC.

The parties can settle the adjustment away from DTC or one of the parties can submit a manual adjustment via the APO service.

Unfortunately, manual processing of adjustments via the APO service is subject to a number of shortcomings. For example, the adjustments are not subject to DTC's risk controls,[6] which can unexpectedly subject the receiving party to the value of the adjustment;[7] they lack a unique identifier, which can make reconciling claims difficult; there is no automated notification process, so Participants need to actively monitor for manual adjustments; there is no dashboard where Participants can see all of their adjustments, nor is there reporting or search capabilities on adjustments; only one party to the stock loan or repo can submit a manual adjustment at a time; and there is not a validation or matching process, which means the parties often need to submit multiple adjustments between each other before reaching final agreement.

To address these shortcomings and others, DTC proposes to no longer allow Participants to use the APO service to make manual adjustments. Instead, Participants

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6 DTC's risk management systems are designed to mitigate credit and market risk by monitoring, in real time, the projected settlement activity of Participants, including intraday application of the Collateral Monitor and Net Debit Cap. These two controls work together to protect the DTC settlement system in the event of a Participant default. The Collateral Monitor requires net debit settlement obligations, as they accrue intraday, to be fully collateralized. Meanwhile, the Net Debit Cap limits the amount of any Participant's net debit settlement obligation to the amount that can be satisfied with DTC liquidity resources (i.e., the Participants Fund and the committed line of credit from a consortium of lenders).

7 Although manual adjustments are not subject to DTC's risk controls, the potential debit or credit value that a party could be unexpectedly subject to is limited to only the value of the adjustment, which is relatively small compared to Participants' end-of-day net settlement amounts.

would be directed to use ClaimConnect in order to continue to make manual adjustments through DTC.

ClaimConnect was established in 2020[8] as an optional DTC service that enables Participants to bilaterally match and settle cash claim transactions through DTC.[9] 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.[10] Claims can be matched manually (i.e., Affirmed) by ClaimConnect users or automatically (i.e., Automatched) 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.[11]

There would be several benefits to using ClaimConnect, in lieu of the APO service, to make manual adjustments at DTC. For example, adjustment claims in ClaimConnect would be subject to DTC's risk controls and would have a unique

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8 See Securities Exchange Act Release No. 90481 (November 23, 2020), 85 FR 76640 (November 30, 2020) (SR-DTC-2020-012).

9 See ClaimConnect Service Guide available at https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/ClaimConnect.pdf. 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.

10 See ClaimConnect Service Guide, supra note 9.

11 Id.

identifier that Participants could track, report on, and query via the Participant's ClaimConnect dashboard. ClaimConnect also permits both parties to an adjustment to submit a claim at the same time, and it would notify the parties when an adjustment was submitted. Moreover, because adjustments would be validated and matched in ClaimConnect, either automatically by the ClaimConnect service or manually by the parties, the parties would not need to submit multiple adjustments to reach agreement.

Additionally, DTC believes that manual adjustments via ClaimConnect would be cheaper than via the APO service. Although ClaimConnect costs $1.75 per side, per-matched claim (i.e., both parties to a claim are charged $1.75, for a total of $3.50, once the claim is confirmed),[12] whereas an APO adjustment only costs $1.50 per adjustment, not per side (i.e., only the party that submits the adjustment is charged $1.50),[13] because there is no validation and matching process for APO adjustments, the parties often need to submit multiple APO adjustments between each other before reaching final agreement. Therefore, the total cost for a manual adjustment via the APO service routinely exceeds $3.50. With ClaimConnect, however, because there would be a validation and matching process for each adjustment claim, only one adjustment would be necessary.

In addition to updating the Distributions Guide regarding the above described changes for manual adjustments, an update would be made to correct a misspelling in the Guide's "Interim Accounting" section. Specifically, the word "include" would be changed to "include<u>d</u>" (emphasis added).

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[12] Fee ID 710, Guide to the DTC Fee Schedule ("Fee Guide"), <u>available at</u> http://www.dtcc.com/-/media/Files/Downloads/legal/feeguides/dtcfeeguide.pdf.

[13] Fee ID 709, Fee Guide, <u>supra</u> note 8.

To effectuate this proposed rule change, (i) the "Correcting P&I Payments on Stock Loan Positions" and the "Correcting REPO Positions" subsections of the Distributions Guide would be updated to direct Participants to use ClaimConnect instead of the APO service to make manual adjustments, and (ii) the "With DTC's Interim Accounting" subsection of the Guide would be update to correct the misspelling described above.

Effective Date

The proposed change to no longer allow Participants to use the APO service to submit manual adjustments but, instead, require Participants to use ClaimConnect for manual adjustments processed through DTC would become effective July 9, 2021. Participants will be notified by Important Notice, posted on DTC's website. Separately, the proposed change to correct the misspelling describe above would be made promptly following Commission approval.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act,[14] requires that the rules of the clearing agency be designed, inter alia, to promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the proposed rule change is consistent with this provision of the Act.

As described above, the proposal would update the Distributions Guide to direct Participants to use ClaimConnect instead of the APO service to make manual adjustments. By no longer allowing manual adjustments via the APO service and, instead, requiring Participants to use ClaimConnect, if they wish to have manual

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[14] 15 U.S.C. 78q-1(b)(3)(F).

adjustments processed through DTC, the proposal not only addresses the various shortcomings of using the APO service for such adjustments, as described above, but also continues to provide a means for Participants to process manual adjustments through DTC. Moreover, ClaimConnect is simply a better platform for processing manual adjustments, given its superior functionality, as noted above and described in detail in the ClaimConnect Service Guide.[15] In short, DTC believes this change would improve the processing and settlement of manual adjustments.

The proposal also would correct a misspelled word in the "Interim Accounting" section of the Distributions Guide, as described above. By correcting the misspelling, the proposal would improve the Guide's clarity for Participants regarding DTC's interim accounting process, alleviating any confusion that the error may have caused.

For these reasons, DTC believes that the proposed rule change helps promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17(A)(b)(3)(F) of the Act.[16]

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

DTC does not believe that the proposed change to update the Distributions Guide to direct Participants to use ClaimConnect instead of the APO service to make manual adjustments will have any impact on competition because Participants would continue to have the option to submit manual adjustments through DTC, albeit via ClaimConnect instead of the APO service. If anything, DTC believes this proposed change may promote competition because, as noted above, ClaimConnect would be a superior platform for

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15 See ClaimConnect Service Guide, supra note 9.

16 Id.

processing manual adjustments and, as also noted above, it may prove to be a cheaper option than using the APO service. Any time or resources Participants save by using ClaimConnect instead of the APO service could be directed to other endeavors.

Meanwhile, DTC does not believe the proposed correction to the misspelled word in the Distributions Guide will have any impact on competition because it will simply correct a typographical error.

(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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)[17] of the Act and paragraph (f)[18] of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily

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[17] 15 U.S.C 78s(b)(3)(A).

[18] 17 CFR 240.19b-4(f).

suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-DTC-2021-007 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-2021-007. 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-2021-007 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.[19]

J. Matthew DeLesDernier
Assistant Secretary

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[19] 17 CFR 200.30-3(a)(12).