

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of *	63	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2021 - * 014 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) * <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>		Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/> Section 806(e)(2) * <input type="checkbox"/>		Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>	
Description Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div style="border: 1px solid black; padding: 5px; min-height: 40px;"> Provide Settlement Services for Transactions Entered Into Under the Proposed Securities Financing Transaction Clearing Service of the National Securities Clearing Corporation </div>			
Contact Information Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action. First Name * <input type="text"/> Last Name * <input type="text"/> Title * <input type="text"/> E-mail * <input type="text" value="RuleFilingAdmin@dtcc.com"/> Telephone * <input type="text"/> Fax <input type="text"/>			
Signature Pursuant to the requirements of the Securities Exchange Act of 1934, has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. <div style="text-align: right;">(Title *)</div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="width: 30%;"> Date <input type="text" value="07/22/2021"/> By <input type="text"/> </div> <div style="width: 60%;"> <div style="border: 1px solid black; height: 30px; width: 100%;"></div> <div style="border: 1px solid black; height: 30px; width: 100%;"></div> </div> </div> <div style="margin-top: 10px; font-size: small;"> (Name *) </div> <div style="margin-top: 10px; font-size: x-small;"> 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. </div>			

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFT website.

Form 19b-4 Information *

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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 *

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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 *

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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

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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 Sent As Paper Document

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Exhibit 3 - Form, Report, or Questionnaire

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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 Sent As Paper Document

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Exhibit 4 - Marked Copies

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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

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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

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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 Proposed Rule Change

(a) The proposed rule change of The Depository Trust Company (“DTC”) is attached hereto as Exhibit 5.¹

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee and the Businesses, Technology and Operations Committee of DTC’s Board of Directors on October 16, 2018 and December 18, 2018, respectively.

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

(a) Purpose

The proposed rule change would amend the Rules, the Settlement Guide, and the Fee Guide in order to provide Participants that are also members of the National Securities Clearing Corporation (“NSCC”) with settlement services in connection with a proposed optional securities financing transaction clearing service of NSCC (“NSCC SFT Service”). The proposed NSCC SFT Service would provide central clearing for equity securities financing transactions, which are, broadly speaking, transactions where the parties exchange equity securities against cash and simultaneously agree to exchange the same securities and cash, plus or minus a rate payment, on a future date (each, an “SFT”).² SFTs between counterparties that are members of NSCC (each,

¹ Each capitalized term not otherwise defined herein has its respective meaning as set forth in DTC’s rules, including, but not limited to, the Rules, By-Laws and Organization Certificate of DTC (“Rules”), the DTC Settlement Service Guide (“Settlement Guide”), and the Guide to the 2020 DTC Fee Schedule (“Fee Guide”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

² On July 22, 2021, NSCC filed a proposed rule change and an advance notice to establish the NSCC SFT Service (“NSCC Proposed Rules”). See SR-NSCC-2021-010 and SR-NSCC-2021-803, which were filed with Securities and Exchange Commission (“Commission”) and the Board of Governors of the Federal Reserve System, respectively, but have not been published in the Federal Register. Copies of the proposed rule change and the advance notice are available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

an “NSCC SFT Counterparty”)³ would be settled through their respective Participant Accounts at DTC.⁴

Pursuant to the proposed rule change, DTC would (i) expand the types of instructions that NSCC, as the representative (“Special Representative”) of each Participant that is also a member of NSCC, can submit to DTC on behalf of a Participant with respect to an Account of the Participant, (ii) establish a new type of payment order for the crediting and debiting of payment amounts relating to SFT activity at NSCC (“SFT Price Differential” or “SFT PD”)⁵ to and from the Accounts of the Participants that are NSCC SFT Counterparties, (iii) apply a modified look-ahead process to the new Account that NSCC would maintain at DTC in connection with the NSCC SFT Service (the “NSCC SFT Account” or “Special Representative SFT Account”),⁶ and (iv) establish a fee for the payor and payee of an SFT Price Differential payment order. Finally, DTC is proposing to make clarifying and conforming changes, as discussed below.

(i) Overview of Proposed Rule Change

DTC understands that, pursuant to the Proposed NSCC Rules and consistent with the manner in which NSCC accepts cash market transactions, SFTs would be submitted to NSCC by

³ DTC understands that the NSCC SFT Service would offer the clearance of SFT transactions between a buy-side entity (a “Sponsored Member”) and the member of NSCC that sponsored that entity for the NSCC SFT Service (“Sponsoring Member”). This proposed rule change by DTC does not relate to Sponsoring Members, Sponsored Members, or their SFT transactions at NSCC. All SFT transactions between a Sponsored Member and its Sponsoring Member would settle on the books of the Sponsoring Member. These SFT transactions and the related activity would occur outside of DTC and would not settle at DTC. The term “NSCC SFT Counterparty,” as used in this filing, does not refer to Sponsored Members or Sponsoring Members.

⁴ DTC understands that, pursuant to the NSCC Proposed Rules, NSCC would establish a new membership category for agent clearing members (each, an “Agent CM”), where members of NSCC would be permitted to submit SFTs to NSCC for novation on behalf of their customers. All SFTs settling at DTC would be processed by DTC without regard to whether a Participant is acting as Agent CM under the NSCC Proposed Rules or is acting on its own behalf. DTC would not establish any SFT or Agent CM Participant membership type, or any special SFT or Agent CM Participant accounts, at DTC.

⁵ DTC understands that the Proposed NSCC Rules would define such credit/debit amount as a “Price Differential,” which would include, but would not be limited to, mark-to-market payments and payments relating to offsetting SFT obligations.

⁶ The NSCC SFT Account, which would appear in the Rules as the “Special Representative SFT Account,” would be Account No. 881.

an Approved SFT Submitter⁷ already matched as between the pre-novation NSCC SFT Counterparties (i.e., on a locked in basis).⁸ Once the SFT instruction is processed by NSCC, NSCC would submit Delivery Versus Payment (“DVP”) instructions or SFT PD payment orders to DTC in accordance with the NSCC Proposed Rules. Pursuant to the NSCC Proposed Rules and the proposed rule change, NSCC would typically only submit pairs of instructions to DTC, as follows: (i) one instruction on its own behalf, with respect to the NSCC SFT Account, and (ii) one instruction on behalf of a Participant, as its Special Representative, with respect to the DTC Account of the Participant.⁹ Accordingly, these DVP and SFT PD transactions between Participants that are NSCC SFT Counterparties to an SFT would pass through the NSCC SFT Account.

A. NSCC Instructions to DTC

(1) NSCC as the Special Representative of Participants that are Members of NSCC

Pursuant to Rule 6, NSCC is the Special Representative of each Participant that is also a Member of NSCC. Currently, as the Special Representative of the Participant, NSCC may instruct DTC, on behalf of the Participant, to make a transfer of securities from the Account of the Participant to an Account that NSCC maintains at DTC in connection with its Continuous Net Settlement (“CNS”) System¹⁰ (the “Special Representative CNS Account”).¹¹ The purpose of these transfers is to settle the CNS obligations of a member of NSCC to NSCC through the member’s Participant Account at DTC.

⁷ DTC understands that the Proposed NSCC Rules would define the term “Approved SFT Submitter” as a provider of transaction data on an SFT that the parties to the SFT have selected and NSCC has approved.

⁸ DTC understands that the NSCC Proposed Rules would provide that the obligations reflected in the transaction data on an SFT would be deemed to have been confirmed and acknowledged by each NSCC SFT Counterparty designated by the Approved SFT Submitter as a party thereto and to have been adopted by such NSCC SFT Counterparty and, for the purposes of determining the rights and obligations between NSCC and such NSCC SFT Counterparty under the NSCC Proposed Rules, would be valid and binding upon such NSCC SFT Counterparty.

⁹ The NSCC Proposed Rules would provide that the submission of each SFT to NSCC constitutes an authorization to NSCC by the NSCC SFT Counterparties for NSCC to give instruction regarding the SFT to DTC in respect of the relevant Participant Accounts of the NSCC SFT Counterparties at DTC.

¹⁰ See e.g., Rule 11 of the NSCC Rules & Procedures, available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

¹¹ The Special Representative CNS Account is Account No. 888.

The NSCC SFT Service would operate separately from the NSCC CNS system, and NSCC would use its new NSCC SFT Account, and not the NSCC CNS Account, in connection with the NSCC SFT Service. In order to efficiently provide Participants with settlement services for SFTs cleared through the NSCC SFT Service and settled at DTC, DTC is proposing to leverage the status of NSCC as the Special Representative of Participants that are members of NSCC. Pursuant to the proposed rule change, Rule 6 would provide NSCC, as the Special Representative of a Participant, with the additional authority to submit instructions to DTC with respect to DVP and SFT PD transactions from the Account of the Participant to the NSCC SFT Account.¹²

(2) DVP Instructions

As noted above, pursuant to the proposed rule change, NSCC would submit pairs of instructions to DTC as follows: (i) one instruction on its own behalf, with respect to the NSCC SFT Account, and (ii) one instruction on behalf of a Participant as its Special Representative, with respect to the DTC Account of the Participant. Accordingly, in order to effectuate a DVP transaction between Participants that are NSCC SFT Counterparties to an SFT, NSCC would send DTC a pair of DVP instructions: (i) one instruction, as the Special Representative of the Participant that is an NSCC SFT Counterparty, to deliver the subject securities versus payment from the Account of the delivering Participant to the NSCC SFT Account, and (ii) one instruction, on NSCC's own behalf, to deliver the subject securities versus payment from the NSCC SFT Account to the Account of the receiving Participant that is the other NSCC SFT Counterparty. As explained in more detail below, if the pair of instructions satisfy DTC risk management controls¹³ and the modified look-ahead, DTC would process the deliveries. If risk management controls and the modified look-ahead are not satisfied, the instructions would recycle¹⁴ and, if not completed, would drop at the end of the day.

There is only one situation where NSCC would only send a single DVP instruction to DTC.¹⁵ Specifically, pursuant to the NSCC Proposed Rules, the initial transfer of the securities

¹² See supra notes 8 and 9.

¹³ DTC uses its risk management controls, the Collateral Monitor and Net Debit Cap, to manage its credit risk. These two controls work together to protect the DTC settlement system in the event of Participant default. The Collateral Monitor requires net debit settlement obligations, as they accrue intraday, to be fully collateralized; the Net Debit Cap limits the amount of any Participant's net debit settlement obligation to an amount that can be satisfied with DTC liquidity resources (the Participants Fund and the committed line of credit from a consortium of lenders). See Settlement Guide, supra note 1, at 64-67.

¹⁴ For a description of Recycle Processing, see Settlement Guide, supra note 1, at 56.

¹⁵ This paragraph does not apply to a "Bilaterally Initiated SFT," which is described in the NSCC Proposed Rules as an SFT that was submitted to NSCC after the initial transfer of securities versus payment had already occurred. DTC is agnostic to whether an NSCC SFT instruction relates to a Bilaterally Initiated SFT or a typical SFT.

that are the subject of the SFT versus the payment amount would be initiated at DTC by the Participant that is the delivering NSCC SFT Counterparty. Therefore, pursuant to the proposed rule change, the Participant that is the delivering NSCC SFT Counterparty would submit the DVP instruction to DTC to deliver the subject securities versus the payment amount from the Account of the Participant to the NSCC SFT Account. Provided that the SFT had already been submitted to NSCC by an Approved SFT Submitter on that business day,¹⁶ NSCC would submit a DVP instruction to DTC to deliver the subject securities versus the payment amount from the NSCC SFT Account to the Account of the Participant that is the receiving NSCC SFT Counterparty. If the Participant instruction and the NSCC instruction satisfy DTC risk management controls and the modified look-ahead, DTC would process the deliveries. If risk management controls and the modified look-ahead are not satisfied, the instructions would recycle and, if not completed, would drop at the end of the day.

(3) Price Differential Payment Orders

Pursuant to the proposed rule change, NSCC would also submit SFT PD payment orders to DTC on behalf of itself and on behalf of DTC Participants, as their Special Representative, in connection with SFT activity at NSCC.

DTC Rule 9(A) provides that a Participant may submit to DTC an instruction to (i) credit the Account of the Participant with an amount of funds and debit the Account of another Participant the same amount of funds, or (ii) debit the Account of the Participant with an amount of funds and credit the Account of another Participant the same amount of funds (each, a “payment order”).¹⁷ The Settlement Guide describes the DTC payment order service as providing Participants with a method for settling money payments for securities transactions that were processed separately.¹⁸ Currently, Participants use payment orders to collect option contract premiums (a “premium payment order” or “PPO”) and mark-to-market open contracts such as stock loans (a “securities payment order” or “SPO”). Payment orders are subject to DTC risk management controls.

Pursuant to the proposed rule change, DTC would enhance the DTC payment order service by adding the SFT PD payment order. The SFT PD payment order would offer an efficient way for NSCC to instruct DTC, on behalf of a Participant or on its own behalf, to credit and debit funds between the NSCC SFT Account and the Accounts of the Participants that are NSCC SFT Counterparties. DTC understands that the amount of each SFT PD would be calculated and instructed by NSCC in accordance with the instructions of an Approved SFT Submitter.

In order to effectuate the payments between Participants that are NSCC SFT Counterparties in connection with SFT activity at NSCC, NSCC would submit a pair of SFT PD

¹⁶ If the SFT was not submitted to NSCC on that business day, the Participant DVP instruction would be rejected.

¹⁷ See Rule 9(A), supra note 1.

¹⁸ See Settlement Guide, supra note 1, at 3.

payment orders to DTC: (i) one instruction, on NSCC's own behalf, to debit the payment amount from the Account of the payor Participant and credit the payment amount to the NSCC SFT Account, and (ii) one instruction, as the Special Representative of the payee Participant, to debit the payment amount from the NSCC SFT Account and credit the payment amount to the Account of the payee Participant. If the pair of instructions satisfy DTC risk management controls and the modified look-ahead, DTC would process the transaction. If the pair of SFT PD payment orders do not satisfy DTC risk management controls and the modified look-ahead, the instructions would recycle and, if they are not completed, would drop at the end of the day.

B. Modified Look-ahead Processing

The typical look-ahead process utilized by DTC reduces transaction blockage by applying the net amount of offsetting receive and deliver transactions in the same security rather than the gross amount of the receive transaction to a Participant's Net Debit Cap. The look-ahead process calculates and processes submitted transactions in the same CUSIP that, when processed simultaneously, would not violate the risk management controls of the involved Participants. Specifically, the look-ahead process identifies a receive transaction pending due to a net debit cap insufficiency and determines whether an offsetting delivery transaction pending because of a quantity deficiency in the same security would permit both transactions to be completed in compliance with DTC risk management controls.¹⁹

As noted above, the NSCC SFT Account is intended to be a pass-through account for DVP and SFT PD transactions between Participants that are NSCC SFT Counterparties. DTC understands that because NSCC, as the central counterparty, would substitute itself as the counterparty for each SFT, it is essential to NSCC that there not be any net settlement obligation against the NSCC SFT Account intraday or at the end of any day. It is essential to NSCC that its obligations to DTC with respect to all completed DVP and SFT PD transactions to which the NSCC SFT Account was a party should be netted to zero with respect to both securities and funds. In an effort to help ensure that there would not be any net settlement obligation against the NSCC SFT Account, and to prevent transaction blockage due to risk management controls on the NSCC SFT Account, DTC is proposing to use a modified look-ahead process for the instructions it receives from NSCC in connection with the NSCC SFT Account.

Pursuant to the proposed rule change, upon receipt of a pair of DVP instructions or SFT PD payment orders from NSCC, DTC would only complete the transaction if the modified look-ahead is satisfied. The modified look-ahead would be satisfied when (i) the pair of instructions from NSCC are consistent in terms of the number of subject shares and/or dollar amount, CUSIP, and DTCC Reference ID,²⁰ and (ii) the net effect of processing the instructions would not violate the respective Net Debit Caps, Collateral Monitor or other risk management system

¹⁹ See Settlement Guide, supra note 1, at 45. See also supra note 13.

²⁰ The DTCC Reference ID is the fourteen-digit UTC Loan ID that NSCC assigns to each SFT transaction.

controls of the Participants that are on each side of the DVP or SFT PD transaction.²¹ If the modified look-ahead is not satisfied, then the pair of instructions would recycle until the look-ahead is satisfied or until the 3:10pm cutoff time, when all recycling valued transactions at DTC are dropped.²²

In addition, because the modified look-ahead relies on the completion of offsetting transactions, transactions to and from the NSCC SFT Account would not be subject to either reclaims or Receiver Authorized Delivery (“RAD”).²³ Since both reclaims and RAD effectively permit one side of the transaction to reject or reverse the transaction, allowing such activity would interfere with the ability of the modified look-ahead to rely on the completion of the offsetting transactions. DTC believes that Participants would not be affected by the exclusion of reclaims and RAD because the NSCC SFT instructions would be based on instructions that were matched and submitted to NSCC on a locked-in basis by an Approved SFT Submitter on behalf of the NSCC SFT Counterparties. Therefore, the Participants that are NSCC SFT Counterparties to an SFT would have already agreed to the transactions to and from the NSCC SFT Account relating to their Participant Account, and, as such, the reclaim and RAD functions would not be necessary.²⁴

C. SFT Price Differential Fee

DTC is proposing to amend the Fee Guide to establish a fee for SFT PD payment orders. DTC is proposing a fee of \$0.005 per item delivered or received, to be charged to the payor and to the payee of an SFT PD payment order.

DTC recognizes that the fee for SFT PD payment orders would be significantly less than the \$0.10 fee for SPO payment orders, which are used by Participants in connection with their

²¹ DTC uses the same modified look-ahead (except for the DTCC Reference ID) for DVP transactions to and from the OCC Market Loan Program Account, which is maintained by The Options Clearing Corporation (“OCC”) at DTC in connection with the OCC Market Loan Program. See Securities Exchange Act Release No. 59298 (January 26, 2009), 74 FR 5692 (January 30, 2009) (SR-DTC-2008-15).

²² DTC would also set the Net Debit Cap of the NSCC SFT Account to one dollar (\$1), which would help ensure that no DVP or SFT PD to or from the NSCC SFT Account would be completed unless an offsetting DVP or SFT PD is also completed. The OCC Market Loan Program Account is similarly risk managed to help ensure that no receives are completed to the OCC Market Loan Program Account unless an offsetting delivery is also completed. See Securities Exchange Act Release No. 59298 (January 26, 2009), 74 FR 5692 (January 30, 2009) (SR-DTC-2008-15).

²³ A reclaim is the return of a deliver order, payment order, institutional delivery transaction or MMI transaction received by a Participant. RAD is a control mechanism that allows a Participant to review transactions prior to completion of processing. See Settlement Guide, supra note 1, at 6.

²⁴ See supra notes 8 and 9.

noncleared stock loan transactions. DTC is proposing to establish this lower fee for SFT PD payment orders because settling payment obligations for cleared SFTs would require a higher volume of payment orders than would otherwise be required for settling payment obligation for uncleared SFTs. More specifically, pursuant to the NSCC Proposed Rules, NSCC SFT Counterparties would pay and collect Price Differentials at the individual transaction level. In the bilateral world, mark-to-market payments and collections on securities lending transactions are typically done at the CUSIP level via SPOs, inclusive of all open securities lending transactions of a given participant. Accordingly, it is likely that there would be more SFT PD payment orders processed by DTC in connection with SFTs than the amount of SPOs DTC would have otherwise processed if those SFTs were bilateral, non-cleared securities lending transactions. Therefore, as an initial matter,²⁵ DTC is proposing to charge the lower fee \$0.005 for SFT PD payment orders in an effort to maintain cost efficiency for both the cleared SFT activity and the uncleared securities financing transactions of market participants.”

(ii) Proposed Rule Change

A. Amendments to the Rules

(1) Rule 1

In order to clearly differentiate between the Special Representative CNS Account and the NSCC SFT Account in Rule 6, DTC is proposing to insert the following definitions into Section 1 of Rule 1:

- i. Special Representative: The term “Special Representative” has the meaning provided in Rule 6.
- ii. Special Representative CNS Account: The term “Special Representative CNS Account” means the Account of the Special Representative that it uses in connection with its continuous net settlement system.
- iii. Special Representative SFT Account: The term “Special Representative SFT Account” means the Account of the Special Representative that it uses in connection with its securities financing transaction service.

In addition, DTC is proposing to remove “Special Representative” from the list of definitions in Section 2 of Rule 1, because it would be redundant once the definition is inserted

²⁵ DTC understands that since NSCC would be offering central clearing for overnight SFTs for the first time, NSCC is not able at this time to anticipate the size and composition of the SFT portfolios and activity. Therefore, DTC is not yet able to estimate the volume of SFT PD payment orders that it would process after the NSCC SFT Service is implemented. Once the NSCC SFT Service is implemented and historical data is available, DTC may, if circumstances warrant, review the amount of the SFT PD payment order fee.

into Section 1 of Rule 1 pursuant to the proposed rule change.

(2) Rule 6

Pursuant to the proposed rule change, DTC would replace references to the “Account of the Special Representative” with “Special Representative CNS Account,” to (i) clearly differentiate the Account that NSCC uses in connection with CNS from the proposed Special Representative SFT Account, and (ii) clearly delineate the transfer and delivery instructions that NSCC as the Special Representative submits to DTC in connection with the CNS system and the DVP instructions and SFT PD payment orders that NSCC as the Special Representative would submit to DTC in connection with the NSCC SFT Service.

Under current Rule 6, the scope of NSCC’s authority as Special Representative to instruct DTC with respect to an Account of a Participant that is a member of NSCC is limited to transfers of securities from the Account of the Participant to the Account of the Special Representative (which would be renamed “Special Representative CNS Account,” as proposed above). Pursuant to the proposed rule change, DTC would amend Rule 6 to provide that NSCC, as the Special Representative, may submit to DTC, on behalf of the Participant, instructions for “the Delivery Versus Payment of Securities from the Account of a Participant to the Special Representative SFT Account,” and for “an amount of money to be credited to the Account of a Participant and debited from the Special Representative SFT Account, in connection with a transaction in Securities, in accordance with Rule 9(A) and as specified in the Procedures.”

B. Amendments to the Settlement Guide

1) In the “Settlement Transactions” subsection of the “About Settlement” section, DTC is proposing to add “Price Differentials (as defined in the NSCC Rules)” to the description of payment orders.

2) In the “Important Terms” subsection of the “About Settlement” section, DTC is proposing to:

a. Amend the description of a “payment order” to be consistent with the amended description in the “Settlement Transactions” subsection. Specifically, DTC would replace the sentence “A transaction in which a Participant charges another Participant for changes in value for outstanding stock loans or option contract premiums” with “The payment order service provides Participants with a mechanism for settling amounts of money related to securities transactions that are effected separately through DTC. Participants use payment orders to collect option contract premiums (premium payment order), mark-to-market open contracts such as stock loans (securities payment order), and Price Differentials (SFT PD payment order).”

b. Insert the term “SFT Price Differential (“SFT PD”) payment order” with the following description: “A payment order through which the amount of a Price Differential (as defined in the NSCC Rules) is (i) debited from the account of a Participant and credited to the NSCC SFT Account, or (ii) is debited from the NSCC SFT Account and credited to the account of a Participant.”

c. Insert the term “NSCC Securities Financing Transaction Service (SFT) Service” with the following description: “A securities financing transaction clearing service offered by NSCC.”

3) After the “NSCC ACATS Settlement Accounting Operation - Processing at DTC” section of the Settlement Guide, DTC is proposing to insert a new section titled “NSCC Securities Financing Transactions (SFT) Service.” The new section would include the following subsections: “About the Product,” which would briefly describe the NSCC SFT Service; “Initial Transfer of SFT Securities at DTC,” which would describe the process for the DVP instructions for the initial transfer of securities versus payment for an SFT; “NSCC Instructions to DTC,” which would describe the pairs of DVP instructions and SFT PD payment orders that NSCC would submit to DTC in connection with SFT activity at NSCC; and “NSCC SFT Account Look-Ahead Processing,” which would describe the modified look-ahead process and inform Participants that transactions to and from the NSCC SFT Account would not be subject to RAD and that reclaims from the NSCC SFT Account would be blocked.

4) In the subsection titled “Settlement Processing Schedule” of the “End-of-Day Settlement Process” section, DTC is proposing to:

a. In the 3:00pm “Cutoff Time ET” row, under “Cutoff for,” insert a third item in the bulleted list that reads: “SFT Transactions cannot be entered after 3:00pm.”

b. In the 3:10pm “Cutoff Time ET” row, under “Cutoff for,” insert “/ SFT” after “CNS” in the second bulleted paragraph to reflect that recycling NSCC SFT instructions would be dropped at that time.

5) In the section “Look-Ahead Processing,” DTC proposes to correct the first sentence to reflect that DTC’s current look-ahead process runs on two-minute intervals, not on fifteen-minute intervals.

6) In the subsection “Optional Memo Segregation Indicators” of the “Memo Segregation” section, DTC is proposing to make a conforming change in order to reflect that securities positions from deliver orders relating to SFT activity at NSCC would be treated the same as stock loan positions. Specifically, DTC is proposing to insert the SFT reason codes 200 and 201 into (i) the row for Activate Indicator 4 as follows: “Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from DOs with reason codes 10, 30, 200, and 600, except those with reason codes 10, 20, 200, 201, 260, 270, 280, or 290,” and (ii) the row for Activate Indicator 5 as follows: “Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from: All DOs, except those with reason codes 20-29, 40 - 48, 99, 201, 261-268, 270-278, 290, 291, 330-338, 340-348, 390, 610-619, 705-707 and CNS receives from the “C” and “E” accounts except if the turnaround is a reason code 10, 20, 200, 201, 260, 270, 280, or 290.”

7) In order to provide clarification around the payment order service and to differentiate between PPOs and SPOs on the one hand and SFT PD payment orders on the other hand, DTC is proposing to amend the “Payment Orders” section by:

a. Amending the “About the Product” subsection to insert a general description of the payment order service that would state: “A payment order authorizes DTC to credit the payee Participant's settlement account with the specified amount and to debit the payor Participant's settlement account for the same amount. All payment orders must satisfy the payor Participant's risk management controls before being processed.”

b. Amending the “How the Product Works” subsection by (i) inserting “Premium Payment Order (PPO) and Securities Payment Order (SPO)” as a new heading for the description of PPOs and SPOs, (ii) deleting the sentence “Either type of payment order authorizes DTC to credit the payee Participant's settlement account with the specified amount and to debit the payor Participant's settlement account for the same amount,” from the first paragraph, (iii) changing a reference to “the Payment Order Service” to “PPOs and SPOs,” (iv) inserting “SFT Price Differential (SFT PD) Payment Order” as a new heading, and (v) inserting the sentence “For a description of SFT Price Differential payment orders, please see NSCC Securities Financing Transactions (SFT) Service” under the SFT Price Differential Payment Order (SFT PD) heading.

8) In order to reflect that a Participant would not be able to use the “Pend Hold” function for a DVP to the NSCC SFT Account, DTC is proposing to insert “with the exception of DOs to and from the NSCC SFT Account” into the description of Pend Hold function in the “Pend Hold” subsection.²⁶

9) In Annex A, DTC is proposing to insert the following new reason codes into the “Memo Segregation Supplement/DO Reason Code Description Reference” section: 200 (SFT Stock Loan) and 201 (SFT Stock Loan Return). These new settlement reason codes would be established at DTC to support on-leg and off-leg settlement of SFTs.

C. Amendments to the Fee Guide

Pursuant to the proposed rule change, DTC would amend the Fee Guide to insert an SFT Price Differential delivery or receipt fee of \$0.005 per item delivered or received.

Implementation Date

DTC will implement the proposed changes when DTC and NSCC receive all necessary regulatory approvals for this proposed rule change and NSCC's proposed rule changes. DTC will announce the implementation date of the proposed rule change in an Important Notice posted on its website.

As proposed, a legend would be added to the Rules,²⁷ Settlement Guide, and Fee Guide stating there are changes that have been approved but have not yet been implemented. The proposed legend also would include that the implementation date would be announced in an

²⁶ A Pend Hold allows a Participant that initiated a DO or pledge transaction to hold (i.e., exclude from processing) the transaction if it is pending for insufficient position. Since a DVP to the NSCC SFT Account is instructed by NSCC as the Special Representative, a Pend Hold is not relevant.

²⁷ DTC is proposing to add the legend to Rules 1 and 6.

Important Notice to be issued by DTC. In addition, the proposed legend would state that the legend would automatically be removed upon the implementation of the proposed changes.

(b) Statutory Basis

DTC believes that the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (“Act”) and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, DTC believes that the proposed rule change is consistent with Sections 17A(b)(3)(F)²⁸ and 17A(b)(3)(D) of the Act²⁹ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.³⁰ DTC is proposing to expand the types of instructions that NSCC, as the Special Representative of a Participant that is also a member of NSCC, can submit to DTC on behalf of a Participant with respect to an Account of the Participant. As noted above, the NSCC Proposed Rules would provide that the submission of each SFT to NSCC by the Approved SFT Submitter on behalf of the NSCC SFT Counterparties would constitute an authorization to NSCC by the NSCC SFT Counterparties for NSCC to give instructions regarding the SFT to DTC in respect of the relevant Participant Accounts of the NSCC SFT Counterparties at DTC. The proposed rule change would provide a basis for DTC to accept and rely on those NSCC instructions. Specifically, DTC would amend Rule 6 to provide for the additional authority of NSCC, as the Special Representative of a Participant, to submit DVP instructions and SFT PD payment orders to DTC, on behalf of Participant, from the Account of the Participant to the NSCC SFT Account. By providing NSCC with the authority to submit these instructions on behalf of a Participant, the proposed rule change supports the efficient settlement of cleared SFTs, thereby promoting the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act, cited above.

Pursuant to the proposed rule change, DTC would establish the SFT PD payment order, which would be a payment order for NSCC to instruct DTC, on behalf of Participants that are NSCC SFT Counterparties, as well as on its own behalf, to credit and debit funds between the NSCC SFT Account and the Accounts of the Participants in connection with SFT activity at NSCC. By establishing this new type of payment order that would utilize the efficiency of the DTC payment order service to settle payments relating to cleared SFTs, the proposed rule change is designed to promote the prompt and accurate clearance and settlement of payment obligations relating to securities transactions, consistent with Section 17A(b)(3)(F) of the Act, cited above.

The proposed rule change would also apply a modified look-ahead process to the new NSCC SFT Account. As discussed above, DTC would use modified look-ahead processing in an effort to (i) ensure that there would not be any net settlement obligation against the NSCC SFT

²⁸ 15 U.S.C. 78q-1(b)(3)(F).

²⁹ 15 U.S.C. 78q-1(b)(3)(D).

³⁰ 15 U.S.C. 78q-1(b)(3)(F).

Account and (ii) prevent transaction blockage that could occur from unsatisfied risk management controls on the NSCC SFT Account. By applying a modified look-ahead to the new NSCC SFT Account, DTC believes that the proposed rule change is designed to promote efficient processing of DVP and SFT PD transactions relating to cleared SFTs. In this way, DTC believes that 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, cited above.

DTC also believes that the proposed rule change to make conforming and technical changes to the Rules and the Settlement Guide would promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the proposed conforming and technical changes would help ensure consistency in the Rules and the Settlement Guide and help ensure that the Rules and the Settlement Guide remain clear and accurate. Having clear and accurate Rules and Settlement Guide would help Participants to better understand their rights and obligations regarding DTC settlement services in connection with the NSCC SFT Service. DTC believes that when Participants better understand their rights and obligations regarding DTC settlement services, they can act in accordance with the Rules and Procedures. DTC believes that better enabling Participants to comply with the Rules and the Settlement Guide would promote the prompt and accurate clearance and settlement of securities transactions. As such, DTC believes the proposed rule change to make conforming and technical changes is consistent with Section 17A(b)(3)(F) of the Act.³¹

Section 17A(b)(3)(D) of the Act requires, *inter alia*, that the Rules provide for the equitable allocation of reasonable dues, fees, and other charges among Participants.³² Pursuant to the proposed rule change, DTC would establish a fee of \$0.005 per item delivered or received, which would be charged to the payor and the payee of an SFT PD payment order. For the reasons set forth below, DTC believes that the proposed fee for SFT PD payment orders would provide for the equitable allocation of reasonable dues, fees, and other charges among Participants. First, DTC believes that the proposed fee of \$0.005 is reasonable. DTC recognizes that the fee for SFT PD orders would be significantly less than the \$0.10 fee for SPOs, which are used by Participants in connection with bilateral stock loan transactions. DTC is proposing to establish this lower fee for SFT PD payment orders because settling payment obligations for cleared SFTs would require a higher volume of payment orders than would otherwise be required for uncleared SFTs. More specifically, pursuant to the NSCC Proposed Rules, NSCC SFT Counterparties would pay and collect Price Differentials at the individual transaction level. In the bilateral world, mark-to-market payments and collections on securities lending transactions are typically done at the CUSIP level via SPOs, inclusive of all open securities lending transactions of a given participant. Accordingly, it is likely that there would be more SFT PD payment orders processed by DTC in connection with SFTs than the amount of SPOs DTC would have otherwise processed if those SFTs were bilateral, non-cleared securities lending transactions. Therefore, as an initial matter, DTC is proposing to charge the lower fee \$0.005 for SFT PD payment orders in an effort to maintain cost efficiency for both the cleared SFT activity

³¹ Id.

³² 15 U.S.C. 78q-1(b)(3)(D).

and the uncleared securities financing transactions of market participants. As noted above,³³ due to the lack of history for cleared SFT activity, DTC cannot estimate at this time the average number of SFT PD payment orders that would be processed and cannot, therefore, quantify a precise fee. However, DTC believes that the proposed fee of \$0.005 is designed to take into account the imbalance between the amount of payment orders that would be required for cleared SFTs and the amount required for uncleared SFTs and is therefore reasonable. DTC also believes that the proposed fee would be equitably allocated because the fee would be charged to payors and payees per item delivered or received in accordance with their use of SFT PD payment orders and all such payors and payees would be treated equally with respect to the fee. Accordingly, DTC believes that the proposed rule change establishing a fee for the delivery and receipt of an SFT PD payment order is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among participants, consistent with Section 17A(b)(3)(D) of the Act, cited above.

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

DTC does not believe that the proposed rule change to expand the types of instructions that NSCC, as Special Representative of a Participant that is a member of NSCC, can submit to DTC on behalf of the Participant with respect to an Account of the Participant would have an impact on competition.³⁴ The proposed rule change is designed to support the use of the NSCC SFT Service by NSCC SFT Counterparties by providing a mechanism for NSCC to submit DVP instructions and SFT PD payment orders to DTC, on behalf of a Participant that is an NSCC SFT Counterparty, for the settlement of the NSCC SFT Counterparty's obligations relating to a cleared SFT. The proposed rule change would only affect Participants that are NSCC SFT Counterparties and would apply to all such Participants equally. Therefore, DTC believes that the proposed rule change to expand the types of instructions that NSCC, as the Special Representative of Participants that are also members of NSCC, can submit to DTC on behalf of a Participant with respect to an Account of the Participant would not have an impact on competition.³⁵

DTC does not believe that the proposed rule change to provide for SFT PD payment orders and to establish a fee for SFT PD payment orders would have an impact on competition.³⁶ As discussed above, an SFT PD payment order would provide Participants a way to utilize the efficiency of the DTC payment order service to settle payments relating to their cleared SFT activity. The establishment of the SFT PD payment order would only affect Participants that are NSCC SFT Counterparties and would apply to all such Participants equally. In addition, the proposed fee for SFT PD payment orders would be charged to payors and payees per their use of SFT PD payment orders and all such payors and payees would be treated equally with respect to the fee. Therefore, DTC believes that the proposed rule change to provide for SFT PD payment

³³ See supra note 25.

³⁴ 15 U.S.C. 78q-1(b)(3)(I).

³⁵ Id.

³⁶ Id.

orders and to establish a fee for SFT PD payment orders would not have an impact on competition.³⁷

DTC does not believe that the proposed rule changes to use modified look-ahead processing for transactions to and from the NSCC SFT Account would have an impact on competition.³⁸ The proposed rule changes would apply to all DVP and SFT PD transactions to and from the NSCC SFT Account, and are designed to promote efficient processing of transactions relating to SFTs cleared by NSCC. The proposed rule change would only affect Participants that are NSCC SFT Counterparties and would apply to all such Participants equally. Therefore, DTC believes that the proposed rule change to use modified look-ahead processing for transactions to and from the NSCC SFT Account would not have an impact on competition.³⁹

DTC does not believe that the proposed rule change to make conforming and technical changes to the Rules and the Settlement Guide would have an impact on competition.⁴⁰ Having clear and accurate Rules and Settlement Guide would facilitate Participants' understanding of the Rules and Settlement Guide and provide Participants with increased predictability and certainty regarding their obligations regarding DTC settlement services in connection with the NSCC SFT Service. Therefore, DTC believes that the proposed rule change to make conforming and technical changes to the Rules and the Settlement Guide would not have an impact on competition.⁴¹

5. Self-Regulatory Organization'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. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding

³⁷ Id.

³⁸ Id.

³⁹ 15 U.S.C. 78q-1(b)(3)(I).

⁴⁰ Id.

⁴¹ Id.

this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

DTC reserves the right not to respond to any comments received.

6. Extension of Time Period for Commission Action

DTC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act⁴² for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

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

The proposed rule change is based on NSCC's proposed SFT Service.

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 of 2010

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.

⁴² 15 U.S.C. 78s(b)(2).

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules, Settlement Guide, and Fee Guide.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[____]; File No. SR-DTC-2021-014)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of a Proposed Rule Change to Provide Settlement Services for Transactions Entered Into Under the Proposed Securities Financing Transaction Clearing Service of the National Securities Clearing Corporation

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 July __, 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. 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 of DTC would amend the Rules, the Settlement Guide, and the Fee Guide³ in order to provide Participants that are also members of the National Securities Clearing Corporation (“NSCC”) with settlement services in connection with a proposed optional securities financing transaction clearing service of NSCC (“NSCC SFT Service”).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Each capitalized term not otherwise defined herein has its respective meaning as set forth in DTC’s rules, including, but not limited to, the Rules, By-Laws and Organization Certificate of DTC (“Rules”), the DTC Settlement Service Guide (“Settlement Guide”), and the Guide to the 2020 DTC Fee Schedule (“Fee Guide”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

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 proposed rule change would amend the Rules, the Settlement Guide, and the Fee Guide in order to provide Participants that are also members of NSCC with settlement services in connection the NSCC SFT Service. The proposed NSCC SFT Service would provide central clearing for equity securities financing transactions, which are, broadly speaking, transactions where the parties exchange equity securities against cash and simultaneously agree to exchange the same securities and cash, plus or minus a rate payment, on a future date (each, an "SFT").⁴ SFTs between counterparties that are

⁴ On July 22, 2021, NSCC filed a proposed rule change and an advance notice to establish the NSCC SFT Service ("NSCC Proposed Rules"). See SR-NSCC-2021-010 and SR-NSCC-2021-803, which were filed with Commission and the Board of Governors of the Federal Reserve System, respectively, but have not been published in the Federal Register. Copies of the proposed rule change and the advance notice are available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

members of NSCC (each, an “NSCC SFT Counterparty”)⁵ would be settled through their respective Participant Accounts at DTC.⁶

Pursuant to the proposed rule change, DTC would (i) expand the types of instructions that NSCC, as the representative (“Special Representative”) of each Participant that is also a member of NSCC, can submit to DTC on behalf of a Participant with respect to an Account of the Participant, (ii) establish a new type of payment order for the crediting and debiting of payment amounts relating to SFT activity at NSCC (“SFT Price Differential” or “SFT PD”)⁷ to and from the Accounts of the Participants that are NSCC SFT Counterparties, (iii) apply a modified look-ahead process to the new Account that NSCC would maintain at DTC in connection with the NSCC SFT Service

⁵ DTC understands that the NSCC SFT Service would offer the clearance of SFT transactions between a buy-side entity (a “Sponsored Member”) and the member of NSCC that sponsored that entity for the NSCC SFT Service (“Sponsoring Member”). This proposed rule change by DTC does not relate to Sponsoring Members, Sponsored Members, or their SFT transactions at NSCC. All SFT transactions between a Sponsored Member and its Sponsoring Member would settle on the books of the Sponsoring Member. These SFT transactions and the related activity would occur outside of DTC and would not settle at DTC. The term “NSCC SFT Counterparty,” as used in this filing, does not refer to Sponsored Members or Sponsoring Members.

⁶ DTC understands that, pursuant to the NSCC Proposed Rules, NSCC would establish a new membership category for agent clearing members (each, an “Agent CM”), where members of NSCC would be permitted to submit SFTs to NSCC for novation on behalf of their customers. All SFTs settling at DTC would be processed by DTC without regard to whether a Participant is acting as Agent CM under the NSCC Proposed Rules or is acting on its own behalf. DTC would not establish any SFT or Agent CM Participant membership type, or any special SFT or Agent CM Participant accounts, at DTC.

⁷ DTC understands that the Proposed NSCC Rules would define such credit/debit amount as a “Price Differential,” which would include, but would not be limited to, mark-to-market payments and payments relating to offsetting SFT obligations.

(the “NSCC SFT Account” or “Special Representative SFT Account”),⁸ and (iv) establish a fee for the payor and payee of an SFT Price Differential payment order. Finally, DTC is proposing to make clarifying and conforming changes, as discussed below.

(i) Overview of Proposed Rule Change

DTC understands that, pursuant to the Proposed NSCC Rules and consistent with the manner in which NSCC accepts cash market transactions, SFTs would be submitted to NSCC by an Approved SFT Submitter⁹ already matched as between the pre-novation NSCC SFT Counterparties (i.e., on a locked in basis).¹⁰ Once the SFT instruction is processed by NSCC, NSCC would submit Delivery Versus Payment (“DVP”) instructions or SFT PD payment orders to DTC in accordance with the NSCC Proposed Rules. Pursuant to the NSCC Proposed Rules and the proposed rule change, NSCC would typically only submit pairs of instructions to DTC, as follows: (i) one instruction on its own behalf, with respect to the NSCC SFT Account, and (ii) one instruction on behalf of a Participant, as its Special Representative, with respect to the DTC Account of

⁸ The NSCC SFT Account, which would appear in the Rules as the “Special Representative SFT Account,” would be Account No. 881.

⁹ DTC understands that the Proposed NSCC Rules would define the term “Approved SFT Submitter” as a provider of transaction data on an SFT that the parties to the SFT have selected and NSCC has approved.

¹⁰ DTC understands that the NSCC Proposed Rules would provide that the obligations reflected in the transaction data on an SFT would be deemed to have been confirmed and acknowledged by each NSCC SFT Counterparty designated by the Approved SFT Submitter as a party thereto and to have been adopted by such NSCC SFT Counterparty and, for the purposes of determining the rights and obligations between NSCC and such NSCC SFT Counterparty under the NSCC Proposed Rules, would be valid and binding upon such NSCC SFT Counterparty.

the Participant.¹¹ Accordingly, these DVP and SFT PD transactions between Participants that are NSCC SFT Counterparties to an SFT would pass through the NSCC SFT Account.

A. NSCC Instructions to DTC

(1) NSCC as the Special Representative of Participants that are Members of NSCC

Pursuant to Rule 6, NSCC is the Special Representative of each Participant that is also a Member of NSCC. Currently, as the Special Representative of the Participant, NSCC may instruct DTC, on behalf of the Participant, to make a transfer of securities from the Account of the Participant to an Account that NSCC maintains at DTC in connection with its Continuous Net Settlement (“CNS”) System¹² (the “Special Representative CNS Account”).¹³ The purpose of these transfers is to settle the CNS obligations of a member of NSCC to NSCC through the member’s Participant Account at DTC.

¹¹ The NSCC Proposed Rules would provide that the submission of each SFT to NSCC constitutes an authorization to NSCC by the NSCC SFT Counterparties for NSCC to give instruction regarding the SFT to DTC in respect of the relevant Participant Accounts of the NSCC SFT Counterparties at DTC.

¹² See e.g., Rule 11 of the NSCC Rules & Procedures, available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

¹³ The Special Representative CNS Account is Account No. 888.

The NSCC SFT Service would operate separately from the NSCC CNS system, and NSCC would use its new NSCC SFT Account, and not the NSCC CNS Account, in connection with the NSCC SFT Service. In order to efficiently provide Participants with settlement services for SFTs cleared through the NSCC SFT Service and settled at DTC, DTC is proposing to leverage the status of NSCC as the Special Representative of Participants that are members of NSCC. Pursuant to the proposed rule change, Rule 6 would provide NSCC, as the Special Representative of a Participant, with the additional authority to submit instructions to DTC with respect to DVP and SFT PD transactions from the Account of the Participant to the NSCC SFT Account.¹⁴

(2) DVP Instructions

As noted above, pursuant to the proposed rule change, NSCC would submit pairs of instructions to DTC as follows: (i) one instruction on its own behalf, with respect to the NSCC SFT Account, and (ii) one instruction on behalf of a Participant as its Special Representative, with respect to the DTC Account of the Participant. Accordingly, in order to effectuate a DVP transaction between Participants that are NSCC SFT Counterparties to an SFT, NSCC would send DTC a pair of DVP instructions: (i) one instruction, as the Special Representative of the Participant that is an NSCC SFT Counterparty, to deliver the subject securities versus payment from the Account of the delivering Participant to the NSCC SFT Account, and (ii) one instruction, on NSCC's own behalf, to deliver the subject securities versus payment from the NSCC SFT Account to the Account of the receiving Participant that is the other NSCC SFT Counterparty. As explained in more detail below, if the pair of instructions satisfy DTC risk management

¹⁴ See supra notes 10 and 11.

controls¹⁵ and the modified look-ahead, DTC would process the deliveries. If risk management controls and the modified look-ahead are not satisfied, the instructions would recycle¹⁶ and, if not completed, would drop at the end of the day.

There is only one situation where NSCC would only send a single DVP instruction to DTC.¹⁷ Specifically, pursuant to the NSCC Proposed Rules, the initial transfer of the securities that are the subject of the SFT versus the payment amount would be initiated at DTC by the Participant that is the delivering NSCC SFT Counterparty. Therefore, pursuant to the proposed rule change, the Participant that is the delivering NSCC SFT Counterparty would submit the DVP instruction to DTC to deliver the subject securities versus the payment amount from the Account of the Participant to the NSCC SFT Account. Provided that the SFT had already been submitted to NSCC by an Approved SFT Submitter on that business day,¹⁸ NSCC would submit a DVP instruction

¹⁵ DTC uses its risk management controls, the Collateral Monitor and Net Debit Cap, to manage its credit risk. These two controls work together to protect the DTC settlement system in the event of Participant default. The Collateral Monitor requires net debit settlement obligations, as they accrue intraday, to be fully collateralized; the Net Debit Cap limits the amount of any Participant's net debit settlement obligation to an amount that can be satisfied with DTC liquidity resources (the Participants Fund and the committed line of credit from a consortium of lenders). See Settlement Guide, supra note 3, at 64-67.

¹⁶ For a description of Recycle Processing, see Settlement Guide, supra note 3, at 56.

¹⁷ This paragraph does not apply to a "Bilaterally Initiated SFT," which is described in the NSCC Proposed Rules as an SFT that was submitted to NSCC after the initial transfer of securities versus payment had already occurred. DTC is agnostic to whether an NSCC SFT instruction relates to a Bilaterally Initiated SFT or a typical SFT.

¹⁸ If the SFT was not submitted to NSCC on that business day, the Participant DVP instruction would be rejected.

to DTC to deliver the subject securities versus the payment amount from the NSCC SFT Account to the Account of the Participant that is the receiving NSCC SFT Counterparty. If the Participant instruction and the NSCC instruction satisfy DTC risk management controls and the modified look-ahead, DTC would process the deliveries. If risk management controls and the modified look-ahead are not satisfied, the instructions would recycle and, if not completed, would drop at the end of the day.

(3) Price Differential Payment Orders

Pursuant to the proposed rule change, NSCC would also submit SFT PD payment orders to DTC on behalf of itself and on behalf of DTC Participants, as their Special Representative, in connection with SFT activity at NSCC.

DTC Rule 9(A) provides that a Participant may submit to DTC an instruction to (i) credit the Account of the Participant with an amount of funds and debit the Account of another Participant the same amount of funds, or (ii) debit the Account of the Participant with an amount of funds and credit the Account of another Participant the same amount of funds (each, a “payment order”).¹⁹ The Settlement Guide describes the DTC payment order service as providing Participants with a method for settling money payments for securities transactions that were processed separately.²⁰ Currently, Participants use payment orders to collect option contract premiums (a “premium payment order” or “PPO”) and mark-to-market open contracts such as stock loans (a “securities payment order” or “SPO”). Payment orders are subject to DTC risk management controls.

¹⁹ See Rule 9(A), supra note 3.

²⁰ See Settlement Guide, supra note 3, at 3.

Pursuant to the proposed rule change, DTC would enhance the DTC payment order service by adding the SFT PD payment order. The SFT PD payment order would offer an efficient way for NSCC to instruct DTC, on behalf of a Participant or on its own behalf, to credit and debit funds between the NSCC SFT Account and the Accounts of the Participants that are NSCC SFT Counterparties. DTC understands that the amount of each SFT PD would be calculated and instructed by NSCC in accordance with the instructions of an Approved SFT Submitter.

In order to effectuate the payments between Participants that are NSCC SFT Counterparties in connection with SFT activity at NSCC, NSCC would submit a pair of SFT PD payment orders to DTC: (i) one instruction, on NSCC's own behalf, to debit the payment amount from the Account of the payor Participant and credit the payment amount to the NSCC SFT Account, and (ii) one instruction, as the Special Representative of the payee Participant, to debit the payment amount from the NSCC SFT Account and credit the payment amount to the Account of the payee Participant. If the pair of instructions satisfy DTC risk management controls and the modified look-ahead, DTC would process the transaction. If the pair of SFT PD payment orders do not satisfy DTC risk management controls and the modified look-ahead, the instructions would recycle and, if they are not completed, would drop at the end of the day.

B. Modified Look-ahead Processing

The typical look-ahead process utilized by DTC reduces transaction blockage by applying the net amount of offsetting receive and deliver transactions in the same security rather than the gross amount of the receive transaction to a Participant's Net Debit Cap. The look-ahead process calculates and processes submitted transactions in the same

CUSIP that, when processed simultaneously, would not violate the risk management controls of the involved Participants. Specifically, the look-ahead process identifies a receive transaction pending due to a net debit cap insufficiency and determines whether an offsetting delivery transaction pending because of a quantity deficiency in the same security would permit both transactions to be completed in compliance with DTC risk management controls.²¹

As noted above, the NSCC SFT Account is intended to be a pass-through account for DVP and SFT PD transactions between Participants that are NSCC SFT Counterparties. DTC understands that because NSCC, as the central counterparty, would substitute itself as the counterparty for each SFT, it is essential to NSCC that there not be any net settlement obligation against the NSCC SFT Account intraday or at the end of any day. It is essential to NSCC that its obligations to DTC with respect to all completed DVP and SFT PD transactions to which the NSCC SFT Account was a party should be netted to zero with respect to both securities and funds. In an effort to help ensure that there would not be any net settlement obligation against the NSCC SFT Account, and to prevent transaction blockage due to risk management controls on the NSCC SFT Account, DTC is proposing to use a modified look-ahead process for the instructions it receives from NSCC in connection with the NSCC SFT Account.

Pursuant to the proposed rule change, upon receipt of a pair of DVP instructions or SFT PD payment orders from NSCC, DTC would only complete the transaction if the modified look-ahead is satisfied. The modified look-ahead would be satisfied when (i) the pair of instructions from NSCC are consistent in terms of the number of subject

²¹ See Settlement Guide, supra note 3, at 45. See also supra note 15.

shares and/or dollar amount, CUSIP, and DTCC Reference ID,²² and (ii) the net effect of processing the instructions would not violate the respective Net Debit Caps, Collateral Monitor or other risk management system controls of the Participants that are on each side of the DVP or SFT PD transaction.²³ If the modified look-ahead is not satisfied, then the pair of instructions would recycle until the look-ahead is satisfied or until the 3:10pm cutoff time, when all recycling valued transactions at DTC are dropped.²⁴

In addition, because the modified look-ahead relies on the completion of offsetting transactions, transactions to and from the NSCC SFT Account would not be subject to either reclaims or Receiver Authorized Delivery (“RAD”).²⁵ Since both reclaims and RAD effectively permit one side of the transaction to reject or reverse the transaction, allowing such activity would interfere with the ability of the modified look-

²² The DTCC Reference ID is the fourteen-digit UTC Loan ID that NSCC assigns to each SFT transaction.

²³ DTC uses the same modified look-ahead (except for the DTCC Reference ID) for DVP transactions to and from the OCC Market Loan Program Account, which is maintained by The Options Clearing Corporation (“OCC”) at DTC in connection with the OCC Market Loan Program. See Securities Exchange Act Release No. 59298 (January 26, 2009), 74 FR 5692 (January 30, 2009) (SR-DTC-2008-15).

²⁴ DTC would also set the Net Debit Cap of the NSCC SFT Account to one dollar (\$1), which would help ensure that no DVP or SFT PD to or from the NSCC SFT Account would be completed unless an offsetting DVP or SFT PD is also completed. The OCC Market Loan Program Account is similarly risk managed to help ensure that no receives are completed to the OCC Market Loan Program Account unless an offsetting delivery is also completed. See Securities Exchange Act Release No. 59298 (January 26, 2009), 74 FR 5692 (January 30, 2009) (SR-DTC-2008-15).

²⁵ A reclaim is the return of a deliver order, payment order, institutional delivery transaction or MMI transaction received by a Participant. RAD is a control mechanism that allows a Participant to review transactions prior to completion of processing. See Settlement Guide, supra note 3, at 6.

ahead to rely on the completion of the offsetting transactions. DTC believes that Participants would not be affected by the exclusion of reclaims and RAD because the NSCC SFT instructions would be based on instructions that were matched and submitted to NSCC on a locked-in basis by an Approved SFT Submitter on behalf of the NSCC SFT Counterparties. Therefore, the Participants that are NSCC SFT Counterparties to an SFT would have already agreed to the transactions to and from the NSCC SFT Account relating to their Participant Account, and, as such, the reclaim and RAD functions would not be necessary.²⁶

C. SFT Price Differential Fee

DTC is proposing to amend the Fee Guide to establish a fee for SFT PD payment orders. DTC is proposing a fee of \$0.005 per item delivered or received, to be charged to the payor and to the payee of an SFT PD payment order.

DTC recognizes that the fee for SFT PD payment orders would be significantly less than the \$0.10 fee for SPO payment orders, which are used by Participants in connection with their noncleared stock loan transactions. DTC is proposing to establish this lower fee for SFT PD payment orders because settling payment obligations for cleared SFTs would require a higher volume of payment orders than would otherwise be required for settling payment obligation for uncleared SFTs. More specifically, pursuant to the NSCC Proposed Rules, NSCC SFT Counterparties would pay and collect Price Differentials at the individual transaction level. In the bilateral world, mark-to-market payments and collections on securities lending transactions are typically done at the CUSIP level via SPOs, inclusive of all open securities lending transactions of a given

²⁶ See supra notes 10 and 11.

participant. Accordingly, it is likely that there would be more SFT PD payment orders processed by DTC in connection with SFTs than the amount of SPOs DTC would have otherwise processed if those SFTs were bilateral, non-cleared securities lending transactions. Therefore, as an initial matter,²⁷ DTC is proposing to charge the lower fee \$0.005 for SFT PD payment orders in an effort to maintain cost efficiency for both the cleared SFT activity and the uncleared securities financing transactions of market participants.”

(ii) Proposed Rule Change

A. Amendments to the Rules

(1) Rule 1

In order to clearly differentiate between the Special Representative CNS Account and the NSCC SFT Account in Rule 6, DTC is proposing to insert the following definitions into Section 1 of Rule 1:

- i. Special Representative: The term “Special Representative” has the meaning provided in Rule 6.
- ii. Special Representative CNS Account: The term “Special Representative CNS Account” means the Account of the Special Representative that it uses in connection with its continuous net settlement system.

²⁷ DTC understands that since NSCC would be offering central clearing for overnight SFTs for the first time, NSCC is not able at this time to anticipate the size and composition of the SFT portfolios and activity. Therefore, DTC is not yet able to estimate the volume of SFT PD payment orders that it would process after the NSCC SFT Service is implemented. Once the NSCC SFT Service is implemented and historical data is available, DTC may, if circumstances warrant, review the amount of the SFT PD payment order fee.

- iii. Special Representative SFT Account: The term “Special Representative SFT Account” means the Account of the Special Representative that it uses in connection with its securities financing transaction service.

In addition, DTC is proposing to remove “Special Representative” from the list of definitions in Section 2 of Rule 1, because it would be redundant once the definition is inserted into Section 1 of Rule 1 pursuant to the proposed rule change.

(2) Rule 6

Pursuant to the proposed rule change, DTC would replace references to the “Account of the Special Representative” with “Special Representative CNS Account,” to (i) clearly differentiate the Account that NSCC uses in connection with CNS from the proposed Special Representative SFT Account, and (ii) clearly delineate the transfer and delivery instructions that NSCC as the Special Representative submits to DTC in connection with the CNS system and the DVP instructions and SFT PD payment orders that NSCC as the Special Representative would submit to DTC in connection with the NSCC SFT Service.

Under current Rule 6, the scope of NSCC’s authority as Special Representative to instruct DTC with respect to an Account of a Participant that is a member of NSCC is limited to transfers of securities from the Account of the Participant to the Account of the Special Representative (which would be renamed “Special Representative CNS Account,” as proposed above). Pursuant to the proposed rule change, DTC would amend Rule 6 to provide that NSCC, as the Special Representative, may submit to DTC, on behalf of the Participant, instructions for “the Delivery Versus Payment of Securities from the Account of a Participant to the Special Representative SFT Account,” and for

“an amount of money to be credited to the Account of a Participant and debited from the Special Representative SFT Account, in connection with a transaction in Securities, in accordance with Rule 9(A) and as specified in the Procedures.”

B. Amendments to the Settlement Guide

- 1) In the “Settlement Transactions” subsection of the “About Settlement” section, DTC is proposing to add “Price Differentials (as defined in the NSCC Rules)” to the description of payment orders.
- 2) In the “Important Terms” subsection of the “About Settlement” section, DTC is proposing to:
 - a. Amend the description of a “payment order” to be consistent with the amended description in the “Settlement Transactions” subsection.
Specifically, DTC would replace the sentence “A transaction in which a Participant charges another Participant for changes in value for outstanding stock loans or option contract premiums” with “The payment order service provides Participants with a mechanism for settling amounts of money related to securities transactions that are effected separately through DTC. Participants use payment orders to collect option contract premiums (premium payment order), mark-to-market open contracts such as stock loans (securities payment order), and Price Differentials (SFT PD payment order).”
 - b. Insert the term “SFT Price Differential (“SFT PD”) payment order” with the following description: “A payment order through which the amount of a Price Differential (as defined in the NSCC Rules) is (i) debited from the

account of a Participant and credited to the NSCC SFT Account, or (ii) is debited from the NSCC SFT Account and credited to the account of a Participant.”

- c. Insert the term “NSCC Securities Financing Transaction Service (SFT) Service” with the following description: “A securities financing transaction clearing service offered by NSCC.”

- 3) After the “NSCC ACATS Settlement Accounting Operation - Processing at DTC” section of the Settlement Guide, DTC is proposing to insert a new section titled “NSCC Securities Financing Transactions (SFT) Service.” The new section would include the following subsections: “About the Product,” which would briefly describe the NSCC SFT Service; “Initial Transfer of SFT Securities at DTC,” which would describe the process for the DVP instructions for the initial transfer of securities versus payment for an SFT; “NSCC Instructions to DTC,” which would describe the pairs of DVP instructions and SFT PD payment orders that NSCC would submit to DTC in connection with SFT activity at NSCC; and “NSCC SFT Account Look-Ahead Processing,” which would describe the modified look-ahead process and inform Participants that transactions to and from the NSCC SFT Account would not be subject to RAD and that reclaims from the NSCC SFT Account would be blocked.
- 4) In the subsection titled “Settlement Processing Schedule” of the “End-of-Day Settlement Process” section, DTC is proposing to:

- a. In the 3:00pm “Cutoff Time ET” row, under “Cutoff for,” insert a third item in the bulleted list that reads: “SFT Transactions cannot be entered after 3:00pm.”
 - b. In the 3:10pm “Cutoff Time ET” row, under “Cutoff for,” insert “/ SFT” after “CNS” in the second bulleted paragraph to reflect that recycling NSCC SFT instructions would be dropped at that time.
- 5) In the section “Look-Ahead Processing,” DTC proposes to correct the first sentence to reflect that DTC’s current look-ahead process runs on two-minute intervals, not on fifteen-minute intervals.
- 6) In the subsection “Optional Memo Segregation Indicators” of the “Memo Segregation” section, DTC is proposing to make a conforming change in order to reflect that securities positions from deliver orders relating to SFT activity at NSCC would be treated the same as stock loan positions. Specifically, DTC is proposing to insert the SFT reason codes 200 and 201 into (i) the row for Activate Indicator 4 as follows: “Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from DOs with reason codes 10, 30, 200, and 600, except those with reason codes 10, 20, 200, 201, 260, 270, 280, or 290,” and (ii) the row for Activate Indicator 5 as follows: “Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from: All DOs, except those with reason codes 20-29, 40 - 48, 99, 201, 261-268, 270-278, 290, 291, 330-338, 340-348, 390, 610-619, 705-707 and CNS receives from the “C” and “E” accounts except if the turnaround is a reason code 10, 20, 200, 201, 260, 270, 280, or 290.”

- 7) In order to provide clarification around the payment order service and to differentiate between PPOs and SPOs on the one hand and SFT PD payment orders on the other hand, DTC is proposing to amend the “Payment Orders” section by:
- a. Amending the “About the Product” subsection to insert a general description of the payment order service that would state: “A payment order authorizes DTC to credit the payee Participant's settlement account with the specified amount and to debit the payor Participant's settlement account for the same amount. All payment orders must satisfy the payor Participant’s risk management controls before being processed.”
 - b. Amending the “How the Product Works” subsection by (i) inserting “Premium Payment Order (PPO) and Securities Payment Order (SPO)” as a new heading for the description of PPOs and SPOs, (ii) deleting the sentence “Either type of payment order authorizes DTC to credit the payee Participant’s settlement account with the specified amount and to debit the payor Participant’s settlement account for the same amount,” from the first paragraph, (iii) changing a reference to “the Payment Order Service” to “PPOs and SPOs,” (iv) inserting “SFT Price Differential (SFT PD) Payment Order” as a new heading, and (v) inserting the sentence “For a description of SFT Price Differential payment orders, please see NSCC Securities Financing Transactions (SFT) Service” under the SFT Price Differential Payment Order (SFT PD) heading.

- 8) In order to reflect that a Participant would not be able to use the “Pend Hold” function for a DVP to the NSCC SFT Account, DTC is proposing to insert “with the exception of DOs to and from the NSCC SFT Account” into the description of Pend Hold function in the “Pend Hold” subsection.²⁸
- 9) In Annex A, DTC is proposing to insert the following new reason codes into the “Memo Segregation Supplement/DO Reason Code Description Reference” section: 200 (SFT Stock Loan) and 201 (SFT Stock Loan Return). These new settlement reason codes would be established at DTC to support on-leg and off-leg settlement of SFTs.

C. Amendments to the Fee Guide

Pursuant to the proposed rule change, DTC would amend the Fee Guide to insert an SFT Price Differential delivery or receipt fee of \$0.005 per item delivered or received.

Implementation Date

DTC will implement the proposed changes when DTC and NSCC receive all necessary regulatory approvals for this proposed rule change and NSCC’s proposed rule changes. DTC will announce the implementation date of the proposed rule change in an Important Notice posted on its website.

As proposed, a legend would be added to the Rules,²⁹ Settlement Guide, and Fee Guide stating there are changes that have been approved but have not yet been

²⁸ A Pend Hold allows a Participant that initiated a DO or pledge transaction to hold (i.e., exclude from processing) the transaction if it is pending for insufficient position. Since a DVP to the NSCC SFT Account is instructed by NSCC as the Special Representative, a Pend Hold is not relevant.

²⁹ DTC is proposing to add the legend to Rules 1 and 6.

implemented. The proposed legend also would include that the implementation date would be announced in an Important Notice to be issued by DTC. In addition, the proposed legend would state that the legend would automatically be removed upon the implementation of the proposed changes.

2. Statutory Basis

DTC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, DTC believes that the proposed rule change is consistent with Sections 17A(b)(3)(F)³⁰ and 17A(b)(3)(D) of the Act³¹ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.³²

DTC is proposing to expand the types of instructions that NSCC, as the Special Representative of a Participant that is also a member of NSCC, can submit to DTC on behalf of a Participant with respect to an Account of the Participant. As noted above, the NSCC Proposed Rules would provide that the submission of each SFT to NSCC by the Approved SFT Submitter on behalf of the NSCC SFT Counterparties would constitute an authorization to NSCC by the NSCC SFT Counterparties for NSCC to give instructions regarding the SFT to DTC in respect of the relevant Participant Accounts of the NSCC SFT Counterparties at DTC. The proposed rule change would provide a basis for DTC to accept and rely on those NSCC instructions. Specifically, DTC would amend Rule 6 to

³⁰ 15 U.S.C. 78q-1(b)(3)(F).

³¹ 15 U.S.C. 78q-1(b)(3)(D).

³² 15 U.S.C. 78q-1(b)(3)(F).

provide for the additional authority of NSCC, as the Special Representative of a Participant, to submit DVP instructions and SFT PD payment orders to DTC, on behalf of Participant, from the Account of the Participant to the NSCC SFT Account. By providing NSCC with the authority to submit these instructions on behalf of a Participant, the proposed rule change supports the efficient settlement of cleared SFTs, thereby promoting the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act, cited above.

Pursuant to the proposed rule change, DTC would establish the SFT PD payment order, which would be a payment order for NSCC to instruct DTC, on behalf of Participants that are NSCC SFT Counterparties, as well as on its own behalf, to credit and debit funds between the NSCC SFT Account and the Accounts of the Participants in connection with SFT activity at NSCC. By establishing this new type of payment order that would utilize the efficiency of the DTC payment order service to settle payments relating to cleared SFTs, the proposed rule change is designed to promote the prompt and accurate clearance and settlement of payment obligations relating to securities transactions, consistent with Section 17A(b)(3)(F) of the Act, cited above.

The proposed rule change would also apply a modified look-ahead process to the new NSCC SFT Account. As discussed above, DTC would use modified look-ahead processing in an effort to (i) ensure that there would not be any net settlement obligation against the NSCC SFT Account and (ii) prevent transaction blockage that could occur from unsatisfied risk management controls on the NSCC SFT Account. By applying a modified look-ahead to the new NSCC SFT Account, DTC believes that the proposed rule change is designed to promote efficient processing of DVP and SFT PD transactions

relating to cleared SFTs. In this way, DTC believes that 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, cited above.

DTC also believes that the proposed rule change to make conforming and technical changes to the Rules and the Settlement Guide would promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the proposed conforming and technical changes would help ensure consistency in the Rules and the Settlement Guide and help ensure that the Rules and the Settlement Guide remain clear and accurate. Having clear and accurate Rules and Settlement Guide would help Participants to better understand their rights and obligations regarding DTC settlement services in connection with the NSCC SFT Service. DTC believes that when Participants better understand their rights and obligations regarding DTC settlement services, they can act in accordance with the Rules and Procedures. DTC believes that better enabling Participants to comply with the Rules and the Settlement Guide would promote the prompt and accurate clearance and settlement of securities transactions. As such, DTC believes the proposed rule change to make conforming and technical changes is consistent with Section 17A(b)(3)(F) of the Act.³³

Section 17A(b)(3)(D) of the Act requires, inter alia, that the Rules provide for the equitable allocation of reasonable dues, fees, and other charges among Participants.³⁴ Pursuant to the proposed rule change, DTC would establish a fee of \$0.005 per item delivered or received, which would be charged to the payor and the payee of an SFT PD

³³ Id.

³⁴ 15 U.S.C. 78q-1(b)(3)(D).

payment order. For the reasons set forth below, DTC believes that the proposed fee for SFT PD payment orders would provide for the equitable allocation of reasonable dues, fees, and other charges among Participants. First, DTC believes that the proposed fee of \$0.005 is reasonable. DTC recognizes that the fee for SFT PD orders would be significantly less than the \$0.10 fee for SPOs, which are used by Participants in connection with bilateral stock loan transactions. DTC is proposing to establish this lower fee for SFT PD payment orders because settling payment obligations for cleared SFTs would require a higher volume of payment orders than would otherwise be required for uncleared SFTs. More specifically, pursuant to the NSCC Proposed Rules, NSCC SFT Counterparties would pay and collect Price Differentials at the individual transaction level. In the bilateral world, mark-to-market payments and collections on securities lending transactions are typically done at the CUSIP level via SPOs, inclusive of all open securities lending transactions of a given participant. Accordingly, it is likely that there would be more SFT PD payment orders processed by DTC in connection with SFTs than the amount of SPOs DTC would have otherwise processed if those SFTs were bilateral, non-cleared securities lending transactions. Therefore, as an initial matter, DTC is proposing to charge the lower fee \$0.005 for SFT PD payment orders in an effort to maintain cost efficiency for both the cleared SFT activity and the uncleared securities financing transactions of market participants. As noted above,³⁵ due to the lack of history for cleared SFT activity, DTC cannot estimate at this time the average number of SFT PD payment orders that would be processed and cannot, therefore, quantify a precise fee. However, DTC believes that the proposed fee of \$0.005 is designed to take into account

³⁵

See supra note 27.

the imbalance between the amount of payment orders that would be required for cleared SFTs and the amount required for uncleared SFTs and is therefore reasonable. DTC also believes that the proposed fee would be equitably allocated because the fee would be charged to payors and payees per item delivered or received in accordance with their use of SFT PD payment orders and all such payors and payees would be treated equally with respect to the fee. Accordingly, DTC believes that the proposed rule change establishing a fee for the delivery and receipt of an SFT PD payment order is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among participants, consistent with Section 17A(b)(3)(D) of the Act, cited above.

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

DTC does not believe that the proposed rule change to expand the types of instructions that NSCC, as Special Representative of a Participant that is a member of NSCC, can submit to DTC on behalf of the Participant with respect to an Account of the Participant would have an impact on competition.³⁶ The proposed rule change is designed to support the use of the NSCC SFT Service by NSCC SFT Counterparties by providing a mechanism for NSCC to submit DVP instructions and SFT PD payment orders to DTC, on behalf of a Participant that is an NSCC SFT Counterparty, for the settlement of the NSCC SFT Counterparty's obligations relating to a cleared SFT. The proposed rule change would only affect Participants that are NSCC SFT Counterparties and would apply to all such Participants equally. Therefore, DTC believes that the proposed rule change to expand the types of instructions that NSCC, as the Special Representative of Participants that are also members of NSCC, can submit to DTC on

³⁶ 15 U.S.C. 78q-1(b)(3)(I).

behalf of a Participant with respect to an Account of the Participant would not have an impact on competition.³⁷

DTC does not believe that the proposed rule change to provide for SFT PD payment orders and to establish a fee for SFT PD payment orders would have an impact on competition.³⁸ As discussed above, an SFT PD payment order would provide Participants a way to utilize the efficiency of the DTC payment order service to settle payments relating to their cleared SFT activity. The establishment of the SFT PD payment order would only affect Participants that are NSCC SFT Counterparties and would apply to all such Participants equally. In addition, the proposed fee for SFT PD payment orders would be charged to payors and payees per their use of SFT PD payment orders and all such payors and payees would be treated equally with respect to the fee. Therefore, DTC believes that the proposed rule change to provide for SFT PD payment orders and to establish a fee for SFT PD payment orders would not have an impact on competition.³⁹

DTC does not believe that the proposed rule changes to use modified look-ahead processing for transactions to and from the NSCC SFT Account would have an impact on competition.⁴⁰ The proposed rule changes would apply to all DVP and SFT PD transactions to and from the NSCC SFT Account, and are designed to promote efficient processing of transactions relating to SFTs cleared by NSCC. The proposed rule change

³⁷ Id.

³⁸ Id.

³⁹ Id.

⁴⁰ Id.

would only affect Participants that are NSCC SFT Counterparties and would apply to all such Participants equally. Therefore, DTC believes that the proposed rule change to use modified look-ahead processing for transactions to and from the NSCC SFT Account would not have an impact on competition.⁴¹

DTC does not believe that the proposed rule change to make conforming and technical changes to the Rules and the Settlement Guide would have an impact on competition.⁴² Having clear and accurate Rules and Settlement Guide would facilitate Participants' understanding of the Rules and Settlement Guide and provide Participants with increased predictability and certainty regarding their obligations regarding DTC settlement services in connection with the NSCC SFT Service. Therefore, DTC believes that the proposed rule change to make conforming and technical changes to the Rules and the Settlement Guide would not have an impact on competition.⁴³

(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. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment

⁴¹ 15 U.S.C. 78q-1(b)(3)(I).

⁴² Id.

⁴³ Id.

submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

DTC reserves the right not to respond to any comments received.

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.

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-2021-014 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-2021-014. 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-2021-014 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.⁴⁴

Secretary

⁴⁴ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Bold and underlined text indicates proposed added language.

~~Bold and strikethrough text~~ indicates proposed deleted language.

**RULES, BY-LAWS
AND ORGANIZATION CERTIFICATE
OF
THE DEPOSITORY TRUST COMPANY**

[Changes to this Rule 1, as amended by File No. SR-DTC-2021-014, are available at <https://www.dtcc.com/legal/sec-rule-filings>. These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. DTC will implement these changes when DTC and NSCC receive all necessary regulatory approvals for the DTC proposed rule changes and the NSCC proposed rule changes (File No. SR-NSCC-2021-010). DTC will announce the implementation date by Important Notice posted on its website. Upon the implementation of these changes, this legend will automatically be removed from this Rule 1.]

RULE 1

DEFINITIONS; GOVERNING LAW

Section 1. Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified:

Settling Bank Net Debit Cap

The term “Settling Bank Net Debit Cap” has the meaning provided in Rule 9(D).

Special Representative

The term “Special Representative” has the meaning provided in Rule 6.

Special Representative CNS Account

The term “Special Representative CNS Account” means the Account of the Special Representative that it uses in connection with its continuous net settlement system.

Special Representative SFT Account

The term “Special Representative SFT Account” means the Account of the Special Representative that it uses in connection with its securities financing transaction service.

Section 2. Set forth below are certain other terms defined in these Rules, and the place in these Rules where such other terms are defined and used:

<u>Defined Term</u>	<u>Rule</u>	<u>Section</u>

Short Charge	Rule 9(B)	Section 2
Special Representative	Rule 6	
Termination Notice	Rule 4	Section 6

[Changes to this Rule 6, as amended by File No. SR-DTC-2021-014, are available at <https://www.dtcc.com/legal/sec-rule-filings>. These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. DTC will implement these changes when DTC and NSCC receive all necessary regulatory approvals for the DTC proposed rule changes and the NSCC proposed rule changes (File No. SR-NSCC-2021-010). DTC will announce the implementation date by Important Notice posted on its website. Upon the implementation of these changes, this legend will automatically be removed from this Rule 6.]

RULE 6

SERVICES

Any instruction given to the Corporation by a Participant or Pledgee or by the Special Representative (as hereinafter defined in this Rule) shall be deemed to be an undertaking to the Corporation by such Participant, the Participant on behalf of which the Special Representative is acting or such Pledgee that it has and shall maintain sufficient Securities balances in its Accounts to support all transactions specified in such instruction.

Any instruction given to the Corporation by the Special Representative on any Business Day to Deliver Securities from the ~~Account of the~~ Special Representative CNS Account to the Account of a Participant shall not be effective, and any entry made by the Corporation in accordance with such instruction shall not be final, until the “effective time” (as defined in the Rules and Procedures of NSCC) on such Business Day.

The Corporation may accept or rely upon any instruction given to the Corporation by a Participant or Pledgee, including any instruction given by physical delivery or delivery by other means such as wire transmission, facsimile copy, magnetic tape or other recording media, in form acceptable to the Corporation and in accordance with the Procedures, which reasonably is understood by the Corporation to have been given to the Corporation by the Participant or Pledgee, and the Corporation shall have no responsibility or liability for any errors which may occur, without negligence on the Corporation’s part, in the course of transmission or recording of any transmissions or which may exist in any document, magnetic tape or other recording media so delivered to the Corporation.

The Corporation may accept and rely upon any instruction given to the Corporation by the Special Representative, including any instruction given by physical delivery or delivery by other means such as wire transmission, facsimile copy, magnetic tape or other recording media, in form acceptable to the Corporation in accordance with the Procedures, which reasonably is understood by the Corporation to have been given to the Corporation by the Special Representative, provided that such instruction relates only to:

- (i) the transfer of Securities from the Account of a Participant to the Special Representative CNS ~~Account of the Special Representative~~,

- (ii) the Delivery Versus Payment of Securities from the Account of a Participant to the Special Representative SFT Account, or**
- (iii) an amount of money to be credited to the Account of a Participant and debited from the Special Representative SFT Account, in connection with a transaction in Securities, in accordance with Rule 9(A) and as specified in the Procedures,**

and the Corporation shall have no responsibility or liability for any errors which may occur, without fault on the Corporation's part, in the course of transmission or recording of transmission or which may exist in any document, magnetic tape or other recording media so delivered to the Corporation, and the Corporation shall be entitled to act pursuant to any such instruction as though such instruction had been received from the Participant from whose Account the transfer is to be made notwithstanding any information the Corporation may have to the contrary.

Any Participant or Pledgee delivering instructions as provided above, or on whose behalf the Special Representative shall deliver instructions as provided above, shall indemnify the Corporation, and any of its employees, officers, directors, stockholders, agents, Participants and Pledgees who may sustain any loss, liability or expense as a result of (a) any act done in reliance upon the authenticity of any instruction received by the Corporation, (b) the inaccuracy of the information contained therein or (c) effecting transactions in reliance upon such information or instruction against any such loss, liability or expense so long as such transactions are effected in accordance with such information and instructions even though they be inaccurate or not authentic and so long as the Person asserting a right to indemnification shall not have knowledge of such inaccuracy or lack of authenticity at the time of the event or events giving rise to such loss, liability or expense.

Notwithstanding the foregoing, the Corporation shall not act upon any instructions purporting to have been given by the Special Representative, or any instructions purporting to have been given by a Participant or Pledgee or the Special Representative by wire transmission, facsimile copy, magnetic tape or other recording media or any means other than in writing, commencing one Business Day after the Corporation receives notice from the Participant or Pledgee that the Corporation shall not accept such instructions until such time as the Participant or the Pledgee shall withdraw such notice.

The term "Special Representative" of a Participant shall be NSCC but only insofar as NSCC acts on behalf of the Participant and (a) the Participant is a member of NSCC or (b) the Participant was a member of NSCC and the Corporation has not received notice that such Participant has ceased to be a member of NSCC.

[Changes to this Guide, as amended by File No. SR-DTC-2021-014, are available at <https://www.dtcc.com/legal/sec-rule-filings>. These changes have been approved by the SEC but have not yet been implemented. DTC will implement these changes when DTC and NSCC receive all necessary regulatory approvals for the DTC proposed rule changes and the NSCC proposed rule changes (File No. SR-NSCC-2021-010). DTC will announce the implementation date by Important Notice posted on its website. Upon the implementation of these changes, this legend will automatically be removed from this Guide.]

[Settlement Service Guide]

About Settlement

Settlement Transactions

There are three main types of transactions processed through the Settlement system.

1. **Deliveries:** DTC's delivery program allows a Participant to settle securities transactions by making book-entry deliveries to another Participant's account. The securities are immobilized in DTC's custody, eliminating the need for physical movement of certificates. DTC reduces the seller's position and increases the buyer's position without the need to move physical certificates. Deliveries can be made with or without the condition of money payment, depending on the applicable Participant's delivery instructions.
2. **Payment Orders (POs):** The payment order service provides Participants with a convenient method for settling amounts of money related to securities transactions that are effected separately through DTC earlier on the same day or on a previous day. Participants can use payment orders to collect option contract premiums, ~~and~~ mark-to-market open contracts such as stock loans, ~~and~~ **Price Differentials (as defined in the NSCC Rules).**
3. **Collateral loans:** The collateral loan service allows a Participant (the pledgor) to pledge securities as collateral for a loan or for other purposes and also request the release of pledged securities. This service allows such pledges and pledge releases to be made free, meaning that the money component of the transaction is settled outside of the depository, or valued, meaning that the money component of the transaction is settled through DTC as a debit/credit to the pledgor's and pledgee's DTC money settlement account. When pledging securities to a pledgee, the pledgor's position is moved from the pledgor's general free account to the pledgee's account which prevents the pledged position from being used to complete other transactions. Likewise, the release of a pledged position would move the pledged position back to the pledgor's general free account where it would then be available to complete other transactions.

Important Terms

The following terms are important to understanding the Settlement Service:

This term	Refers to
Aggregate Affiliated Family Net Debit Cap	A limit to the settlement debit an Affiliated Family can incur at any point during the processing day.

night deliver order (NDO)	A DO input on the day prior to settlement. A reduced rate is charged for NDO transactions.
<u>NSCC Securities Financing Transaction (SFT) Service</u>	<u>A securities financing transaction clearing service offered by NSCC.</u>
payment order (PO)	<u>The payment order service provides Participants with a mechanism for settling amounts of money related to securities transactions that are effected separately through DTC. Participants use payment orders to collect option contract</u>

This term	Refers to
	<u>premiums (premium payment order), mark-to-market open contracts such as stock loans (securities payment order), and Price Differentials (SFT PD payment order).</u> A transaction in which a Participant charges another Participant for changes in value for outstanding stock loans or option contract premiums.

Settlement User Interface	Any system or combination of systems that allows for input/inquiry into the DTC Settlement System.
<u>SFT Price Differential ("SFT PD") payment order</u>	<u>A payment order through which the amount of a Price Differential (as defined in the NSCC Rules) is (i) debited from the account of a Participant and credited to the NSCC SFT Account, or (ii) is debited from the NSCC SFT Account and credited to the account of a Participant.</u>
short covers	Deliveries to NSCC's Omnibus Account 888 as a result of CNS.

unvalued additions	<p>Unvalued additions to a Participant's security account that do not carry a related payment obligation with the receipt of securities. They include:</p> <ul style="list-style-type: none"> • Deposits • Free release of pledged securities • Receipt of a free DO <p>Releases of segregated securities</p>

NSCC ACATS Settlement Accounting Operation - Processing at DTC

NSCC's Rules & Procedures establish the NSCC ACATS Settlement Accounting Operation which interfaces with DTC's system to move securities from the account of one Participant to another. NSCC maintains an account at DTC with respect to the associated securities movements.

When securities that are the subject of an ACATS transfer are credited to a receiving Participant's Account at DTC, those securities will automatically be designated as Minimum Amount (MA), as defined in the DTC rules. Accordingly, when such securities are credited to the receiving Participant's account, DTC will not have any security interest, lien or other claim on those securities and those securities will not constitute Collateral or be counted in the Collateral Monitor of the receiving Participant.

NSCC Securities Financing Transactions (SFT) Service

About the Product

The NSCC SFT Service would provide central clearing for equity securities financing transactions, which are, broadly speaking, transactions where the parties exchange equity securities against cash and simultaneously agree to exchange the same securities and cash, plus or minus a rate payment, on a future date (each, an "SFT").

Initial Transfer of SFT Securities at DTC

The initial transfer of the securities that are the subject of the SFT is typically initiated by the delivering Participant at DTC. The delivering Participant submits a Delivery Versus Payment instruction to DTC to deliver the securities versus the SFT payment amount from the account of the delivering Participant to Account 881, which is the NSCC SFT Account that was established by NSCC at DTC for SFT transactions. The Delivery Versus Payment instruction of the Participant must contain the fourteen-digit UTC Loan ID that was assigned by NSCC to the relevant SFT ("DTCC Reference ID").

Once DTC receives a corresponding Delivery Versus Payment instruction from NSCC to deliver the subject securities versus the SFT payment amount from the NSCC SFT Account to the account of the receiving Participant, DTC will use look-ahead processing to process the pair of Delivery Versus Payment instructions, as discussed below.

If DTC does not receive the corresponding Delivery Versus Payment instruction from NSCC by 3:10pm ET, then the Delivery Versus Payment instruction from the delivering Participant will be rejected.

NSCC Instructions to DTC

NSCC submits two types of instructions to DTC in connection with SFT transactions at NSCC: (i) Delivery Versus Payment, and (ii) SFT Price Differential ("SFT PD") payment orders. All instructions submitted to DTC by NSCC must contain the DTCC Reference ID. With the exception of the initial transfer of the SFT securities described above, NSCC will submit all instructions to DTC in pairs.

For each Delivery Versus Payment transaction in connection with an SFT, NSCC submits a pair of instructions to DTC: (i) one instruction as the Special Representative (as defined in DTC Rule 6) of the delivering Participant to deliver the securities that are the subject to the SFT versus the SFT payment amount from the account of the Participant to the NSCC SFT Account, and (ii) one instruction, on NSCC's own behalf, to deliver the securities that are the subject of the SFT versus the SFT payment amount from the NSCC SFT Account to the account of the receiving Participant. Upon receipt of the pair of instructions from NSCC, DTC will use look-ahead processing to process the pair of Delivery Versus Payment transactions, as discussed below.

An SFT PD payment order is a payment order in the amount of a Price Differential calculated by NSCC, in accordance with NSCC Rules, in connection with cleared SFT activity at NSCC. For further information about the calculation of Price Differentials by NSCC in connection with the NSCC SFT Service, see NSCC Rule 56. For each SFT PD, NSCC submits a pair of instructions to DTC: (i) one SFT PD payment order as the Special Representative (as defined in DTC Rule 6) of the payee Participant to credit the amount of the Price Differential to the account of the payee Participant and debit the amount of the Price Differential to the NSCC SFT Account, and (ii) one SFT PD payment order, on NSCC's own behalf, to credit the NSCC SFT Account the amount of the Price Differential and debit the amount of the Price Differential from the account of the payor Participant. Upon receipt of the pair of instructions from NSCC, DTC will use look-ahead processing to process the pair of SFT PD payment orders.

NSCC SFT Account Look-Ahead Processing

With respect to Delivery Versus Payment instructions and SFT PD payment orders, look-ahead processing determines whether (i) the pair of instructions from NSCC are consistent in terms of the number of subject shares, dollar amount, CUSIP and SFT UTC Loan ID, and (ii) the net effect of processing the instructions will not violate the respective net debit caps, collateral monitor or other Risk Management system controls of

the Participants that are on each side of the Delivery Versus Payment or SFT PD transactions. If the look-ahead is satisfied, DTC will process the pair of instructions. If the look-ahead is not satisfied, then the pair of instructions will recycle until the look-ahead is satisfied or until the 3:10pm cutoff, when all recycling transactions are dropped.

The purpose of using a look-ahead process for Delivery Versus Payment and SFT PD transactions through the NSCC SFT Account is: to reduce the blockage of transactions processing through the NSCC SFT Account while maintaining the risk management controls of the delivering/receiving or payor Participant, as the case may be. In addition, the NSCC SFT Account has a Net Debit Cap of \$1, for the purpose of preventing the processing of the pairs of Delivery Versus Payment and SFT PD transactions until the look-ahead is satisfied.

Note: In an effort to ensure that the processing through the NSCC SFT Account operates effectively, the Delivery Versus Payment transactions and the SFT PDs to/from the NSCC SFT Account are not subject to RAD, and reclaims from the NSCC SFT Account are blocked.

End-of-Day Settlement Process

Settlement Contact Number

For more information about Settlement processing, call DTC's Settlement Hotline at 212-855-5800.

Settlement Processing Schedule¹

The following table describes the DTC Settlement processing schedule. All times are eastern time.

Cutoff Time ET	This Occurs
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3:00 p.m.	Cutoff for: <ul style="list-style-type: none"> DTC's receipt of an IPA's MMI Funding Acknowledgement or refusal to pay notification. An IPA to notify DTC of a Temporary Acronym Payment Failure (as defined below). <u>SFT transactions cannot be entered after 3:00pm.</u> Forced Receiver Authorized Delivery (RAD) period begins. <p><i>Note– A Participant can continue to enter valued and free transactions. However, all valued transactions are forced into RAD and require the receiving Participant's approval.</i></p>
3:10 p.m.	Cutoff for: <ul style="list-style-type: none"> Pledges to approve pledge release requests designating position as CNS-eligible.

¹ To be read in conjunction with the Settling Bank Processing Schedule above.

Cutoff Time ET

This Occurs

- Valued recycle cutoff. All non-MMi valued, CNS / **SFI** transactions and fully paid for and secondary MMI deliveries or maturity presentments that cannot be completed because of insufficient position, collateral, or net debit cap are dropped from the system.

Note—All valued transactions input or approved by Participants after this time will not recycle; they will either complete or drop.

Look-Ahead Processing

DTC's Look-Ahead process runs on ~~fifteen-two~~ minute intervals and selects pairs of transactions that when processed simultaneously will not violate the involved Participants net debit cap, collateral or other Risk Management system controls.

The Look-Ahead process reduces transaction blockage for securities by identifying a receive transaction pending due to a net debit cap insufficiency and determines whether an offsetting delivery transaction pending because of a quantity deficiency in the same security would permit both transaction pending because of a quantity deficiency in the same security would permit both transactions to be completed in compliance with DTC's Risk Management system controls. DTC's processing system, Account Transaction Processor (ATP) calculates the net effect to the collateral and net debit cap controls for all three Participants involved and if the net effect will not result in a deficit in the collateral or net debit cap for any of the three Participants, ATP processes the transactions simultaneously.

DTC's Look-Ahead process also allows Money Market Issuance Deliveries pending for a Custodian's or Dealer's net debit cap to complete against Maturity Presentments pending for an Issuing/Paying Agent's net debit cap. The processing system calculates the net effect of the dollar amount of offsetting transactions in the accounts of the two Participants involved. If the net of the transactions results in positive risk management controls in those two accounts, the transactions will be completed.

OCC Market Loan Program

In order to reduce the possibility of mis-matched stock loans, look-ahead matches on number of shares and dollar amount in addition to CUSIP on stock loan transactions in the OCC account.

Memo Segregation²

Optional Memo Segregation Indicators

A Participant can activate any of five Memo Segregation indicators by providing DTC with a standing Memo Segregation instruction. When the Participant activates a Memo Segregation indicator, the Participant's free position and Memo Segregation position are automatically updated according to the indicators that the Participant has elected.

² See **Error! Reference source not found.** for descriptions of the reason codes referenced in this Memo Segregation section.

Activate Indicator	To
1	<p>Automatically increase the Participant's Memo Segregation counter upon the receipt of:</p> <ul style="list-style-type: none"> • Free and valued DOs with reason codes 40, 99, 330, & 340 • DRS-related Deliveries with reason codes 390 and 391 • WT reversals • Positions resulting from voluntary and mandatory reorganizations.
2	Automatically increase the Participant's Memo Segregation counter upon receipt of transactions with reason codes 41-48, 331-338, and 341-348.
3	Automatically increase the Participant's Memo Segregation counter upon the receipt of CNS receives from the Fully-Paid-For Securities or "E" account.
4	Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from DOs with reason codes 10, 30, <u>200</u> , and 600, except those with reason codes 10, 20, <u>200, 201</u> , 260, 270, 280, or 290.
5	<p>Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from:</p> <p>All DOs, except those with reason codes 20-29, 40 - 48, 99, <u>201</u>, 261-268, 270-278, 290, 291, 330-338, 340-348, 390, 610-619, 705-707 and CNS receives from the "C" and "E" accounts except if the turnaround is a reason code 10, 20, <u>200, 201</u>, 260, 270, 280, or 290.</p>
6	A Participant may elect to increase automatically its Memo Segregation counter by the units of securities credited to the Participant's account in any ACATS transfer to that account.

Memo Segregation indicators 4 and 5 control the capability that allows certain positions to be used for turnarounds up to the amount of the received position, regardless of Memo Segregation constraints.

Even if the Participant has no pending deliveries at the time a position is received from a DO with reason code 10 or 30, DTC retains, throughout that day's processing cycle, a notation of the number of shares received from such deliveries. DTC also processes any deliveries regardless of when they are submitted that day, up to that number, regardless of the Participant's Memo Segregation position.

Memo Segregation Contact Number

For more information about Memo Segregation, call DTC's Customer Support Center at (888) 382-2721.

Payment Orders

About the Product

DTC'S Payment Order service allows you to settle money payments for transactions that were processed separately. **A payment order authorizes DTC to credit the payee Participant's settlement account with the specified amount and to debit the payor Participant's settlement account for the same amount. All payment orders must satisfy the payor Participant's risk management controls before being processed.**

How the Product Works

Premium Payment Order (PPO) and Securities Payment Order (SPO)

A Participant wanting to collect money (the payee Participant) from another Participant (the payor Participant) first contacts the payor Participant to reach agreement on the amount payable. The payee Participant then submits to DTC a premium payment order (PPO) or a securities payment order (SPO).³ The PPO is used to collect a net option contract premium for an opening writing or closing purchase transaction. The SPO is used to collect a mark-to-market payment based on the difference between the current and previous market value of an open securities contract. ~~Either type of payment order authorizes DTC to credit the payee Participant's settlement account with the specified amount and to debit the payor Participant's settlement account for the same amount.~~

The following are typical situations in which you would use ~~the Payment Order service~~ PPOs and SPOs.

- A bank's customer writes an opening call option. Through DTC the bank deposits underlying securities with the Options Clearing Corporation (OCC). The bank (the payee Participant) submits to DTC a PPO crediting its settlement account for the amount of the net option contract premium and debiting the account of the broker (the payor Participant) for the same amount.
- A bank's customer purchases a closing call option. OCC releases underlying securities previously deposited with it through DTC. The broker (the payee Participant) submits to DTC a PPO crediting its settlement account for the amount of the net option premium and debiting the account of the bank (the payor Participant) for the same amount.
- A Participant delivers securities to another Participant through DTC in a stock loan transaction. Thereafter, the market value of the securities increases significantly. The lender (the payee Participant) submits an SPO to DTC crediting its settlement account for the amount of the difference between the original and new market values and debiting the account of the borrower (the payor Participant) for the same amount.

SFT Price Differential (SFT PD) Payment Order

For a description of SFT Price Differential payment orders, please see NSCC Securities Financing Transactions (SFT) Service.

Note- You can use Participant Settlement Statements to get a list of Settlement activity codes and their descriptions.

Pend Hold

Pend Hold allows you to hold and release ("unhold") transactions. DTC will not process held transactions until the holding Participant releases the hold. Participants will be permitted to hold

pending deliverer orders and pledge transactions, including reclaims of deliveries, deliveries of Initial Public Offering (IPO) positions, and pending deliveries to Continuous Net Settlement (CNS short covers), **with the exception of DOs to and from the NSCC SFT Account**. Only the initiator (deliverer or pledgor) of a transaction will be permitted to hold or release a pending transaction. Moreover, only transactions that pend for insufficient position may be held.

Memo Segregation Supplement

DO Reason Code Description Reference

The following is a listing of descriptions of the reason codes referred to in the "Memo Segregation" section above.

- 100 (Account Transfer Without Memo Seg Reclaim)
- 197 (Account Transfer With Memo Seg Reclaim)
- **200 (SFT Stock Loan)**
- **201 (SFT Stock Loan Return)**
- 220 (Repo Tracking)
- 260 (OCC Stock Loan)

GUIDE TO THE DTC Fee Schedule

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FEE NAME	AMOUNT (\$)	CONDITIONS

Payment Order Service		
Premium payment order (PPO) or securities payment order (SPO) delivery or receipt	0.10	Per item delivered or received
<u>SFT Price Differential delivery or receipt</u>	<u>0.005</u>	<u>Per item delivered or received</u>