

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 25		SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No. * SR 2023 - * 007 Amendment No. (req. for Amendments *)	
Filing by The Depository Trust Company Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial * <input checked="" type="checkbox"/>		Amendment * <input type="checkbox"/>		Withdrawal <input type="checkbox"/>	
Section 19(b)(2) * <input type="checkbox"/>		Section 19(b)(3)(A) * <input checked="" type="checkbox"/>		Section 19(b)(3)(B) * <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 checked="" 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"/>			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"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div>Modify the Distributions Guide, Redemptions Guide, Reorganizations Guide, and Operational Arrangements, Relating to the Compensation Claims Process</div>					
<b>Contact Information</b> 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 * [redacted] Last Name * [redacted] Title * [redacted] E-mail * RuleFilingAdmin@dtcc.com Telephone * [redacted] Fax [redacted]					
<b>Signature</b> Pursuant to the requirements of the Securities Exchange of 1934, The Depository Trust Company has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. Date 07/12/2023 (Title *) By [redacted] [redacted] (Name *) <div>NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.</div> <div>Date: 2023.07.12 12:53:21 -04'00'</div>					

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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Narrative - DTC Compensation Claims

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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Exh 1A - DTC Compensation Claims -

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 Advanced 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 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.

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Exhibit Sent As Paper Document

**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.

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Exhibit Sent As Paper Document

**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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Exh 5 - DTC Compensation Claims - 2

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 the Proposed Rule Change**

(a) The proposed rule change of The Depository Trust Company (“DTC”)<sup>1</sup> is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Clearing Agency**

The proposed rule change was approved by a Deputy General Counsel of DTC on July 11, 2023.

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

### **(a) Purpose**

The proposed rule change consists of modifications to the DTC Distributions Service Guide (“Distributions Guide”),<sup>2</sup> DTC Redemptions Service Guide (“Redemptions Guide”),<sup>3</sup> DTC Reorganizations Service Guide (“Reorganizations Guide,”<sup>4</sup> and collectively with the Distributions Guide and Redemptions Guide, “Service Guides”) and the DTC Operational Arrangements (Necessary for Securities to Become and Remain Eligible for DTC Services) (“OA”),<sup>5</sup> relating to the process under which DTC, on behalf of its Participants, claims compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC principal and interest, or entitlements for a corporate actions event, on the scheduled

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<sup>1</sup> Each capitalized term not otherwise defined herein has its respective meaning as set forth the Rules, By-Laws and Organization Certificate of DTC (the “Rules”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

<sup>2</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Service-Guide-Distributions.pdf>.

<sup>3</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Redemptions.pdf>.

<sup>4</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Reorganizations.pdf>.

<sup>5</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/issue-eligibility/eligibility/operational-arrangements.pdf>.

payment date in immediately available funds (“Compensation Claims Process”), as described below.<sup>6</sup>

### Background

As the holder of immobilized securities through its nominee, Cede & Co., DTC provides asset services that facilitate centralization, simplification, and automation in the processing of principal and income payments and corporate actions.<sup>7</sup> In this regard, DTC receives from agents, on behalf of its Participants, funds payments representing scheduled payments of dividends on equity securities or interest or principal on debt securities. These payments may include payments of principal and, in certain cases, payments of interest accrued from the preceding interest payment date. These payments are credited to the Participants to whom they are due (as reflected in DTC’s records). DTC also receives and allocates funds payments in connection with redemptions of debt securities prior to their scheduled maturity. DTC also processes the allocation of cash and stock entitlements it receives in connection with reorganizations.

To the extent funds and identifying information are received, these entitlements pass through DTC and are credited to the accounts of Participants on the same day that they are paid to DTC, in accordance with the OA. Occasionally, DTC has received late payments of such entitlements, and Participants may not realize interest or other returns that they would have if the entitlements were timely paid by the agent.

Pursuant to the OA, DTC may, on behalf of Participants, elect to claim interest compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds.<sup>8</sup> The Distributions Guide and Redemptions Guide provide that DTC will make such claims on behalf of Participants for interest relating to late payments by agents. As such, DTC automatically and proactively claims interest compensation from agents who pay DTC after the payable date. Collected compensation is passed on to Participants that had a position in the late-paying issue.

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<sup>6</sup> The respective Service Guides and OA are each a Procedure of DTC. Pursuant to the Rules, the term “Procedures” means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 1. They are binding on DTC and each Participant in the same manner that they are bound by the Rules. See Rule 27, supra note 1.

<sup>7</sup> These services, including distributions, redemptions, and reorganizations, among others, are further described in applicable DTC service guides, available at <https://www.dtcc.com/legal/rules-and-procedures>.

<sup>8</sup> See OA, supra note 5, at 5.

Historically, the percentage and value of claims paid by agents is low relative to the amounts claimed despite considerable resources dedicated by DTC to this process.<sup>9</sup> This outcome may be due to factors arising away from DTC (e.g., unavailability of issuer funds to pay such claims, an agent paying a Participant interest outside of DTC, terms of a particular security, etc.). DTC believes it would be more efficient for Participants to manage their claims directly with agents, instead of via DTC, as they may have information relating to the terms of their investments and the underlying terms of the securities to determine whether a claim should be made and whether the pursuit of a claim is worth the use of their time and resources in relation to the value of the claim. Since Participants are better situated to make claims on their own, without DTC's intervention, DTC believes that the resources it uses to perform the Compensation Claims Process would be better used on other DTC processing functions. Therefore, DTC proposes to no longer automatically and proactively claim agents for late compensation on behalf of Participants. However, DTC would maintain discretion to submit compensations claims to an agent on behalf of a Participant, in the event the Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent, and so notifies DTC.

In addition, the proposed rule change would clarify the circumstances under which DTC may make claims relating to late payments of entitlements for reorganization events. Unlike distributions or redemptions, reorganization events do not necessarily have a scheduled or announced payment date across all our various event types. In this regard, DTC would clarify the OA that it may claim an agent or issuer on any of these dates, or any time entitlements are available to holders and DTC was not paid timely.

#### Proposed Rule Change

Pursuant to the proposed rule change, the Compensation Claims Process language in the Distributions Guide and Redemptions Guide would be revised to state that if a Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent, and so notifies DTC, DTC may, rather than will, make claims on behalf of Participants for interest against agents and/or issuers relating to late payments by agents.

The text of the OA that provides that DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds would be clarified with respect to when DTC may make claims relating to reorganizations events. In this regard, text would be added to state that in the case of certain reorganization transactions, DTC may claim the agent and/or

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<sup>9</sup> For example, for the two months of December 2022 and January 2023 combined, DTC made 51 claims to agents in a total amount of \$1,139,092.98. Of these claims, a total of 6 claims, or 12 percent were paid by the agents. The total dollar amount recovered was \$99,145.41, or less than 9 percent of the total claimed. For the months from August 2021 to September 2022, for more than half of the months DTC received payment in a value of less than 5 percent of the amount claimed. For each of three months during this period where the value recovered was over 50 percent of the amount claimed, the highest total number of claims in a month was 6, and the amount highest total dollar amount claimed in a month was less than \$5,200.

issuer if there is a failure to pay DTC in immediately available funds on the scheduled payment date or on the effective date (as it applies to the Reorganizations transaction), or on the first day funds are made available for payment. Consistent with the proposed text for the Distributions Guide and Redemptions Guide described above, the revised text would preface any election by DTC to pursue such a claim on a Participant notifying DTC that it was unsuccessful in making its own direct claims for compensation to an issuer or agent.

The text of the Reorganizations Guide, which currently does not address compensation claims, also would be amended to add similar language as that proposed for the OA, above. Specifically, the Reorganizations Guide would state that in the case of reorganization transactions, if a Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent, and so notifies DTC, DTC may claim the agent and/or issuer if there is a failure to pay DTC in immediately available funds on the scheduled payment date or on the effective date, or the first day funds are made available for payment.

#### Effective Date

The proposed rule change is to become immediately effective upon filing.

#### (b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (“Act”)<sup>10</sup> requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. As described above, the proposed rule change would revise the OA and Service Guides such that DTC would no longer automatically and proactively engage in the Compensation Claims Process on behalf of Participants; rather DTC may make such claims to the extent a Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent. As described above, (i) Participants are better situated than DTC to determine when and how to make compensation claims in accordance with their own priorities, and (ii) the proposal would enable the reallocation of DTC’s resources that are currently used for the Compensation Claims Process, to other functions that support DTC services, thus helping to promote prompt and accurate clearance and settlement. Therefore, DTC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(21)<sup>11</sup> promulgated under the Act requires, *inter alia*, that DTC, a covered clearing agency, establish, implement, maintain, and enforce written policies and procedures reasonably designed to, as applicable, be efficient and effective in meeting the requirements of its participants and the markets it serves. As described above, the proposed rule change would revise the OA and Service Guides such that DTC would no longer automatically and proactively submit compensation claims to agents and/or issuers, except DTC may make such claims at its discretion. As noted above, the percentage of claims paid in both actual and dollar value amounts are historically low, which does not warrant DTC expending resources to

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<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(21).



recover the funds. Instead, DTC believes it could more effectively and efficiently apply the resources allocated to the Compensation Claims Process to other core DTC processing functions. Therefore, DTC believes that the proposed rule change would help promote efficiency and effectiveness in DTC meeting the requirements of its participants and the markets it serves, consistent with Rule 17Ad-22(e)(21).

#### **4. Clearing Agency's Statement on Burden on Competition**

DTC does not believe that the proposed rule change would have any impact, or impose any burden, on competition.

As described above, the proposed rule change consists of changes to the OA and Service Guides to clarify DTC's Compensation Claims Process and changes this process so that DTC would no longer automatically and proactively make claims for interest on late payments. As described above, the amount, both in actual and dollar amounts, of claims recovered is low relative the amount and value of claims DTC makes to agents, and the value Participants receive in return is minimal. In addition, DTC believes that Participants can more efficiently make compensation claims directly to an agent and/or issuer, away from DTC, by pursuing claims they believe are worth pursuing. Therefore, given the minimal benefit realized by Participants from the current Compensation Claims Process, and that Participants may engage agents more efficiently on their own to make such claims, DTC believes that the proposed rule change would not have any impact or impose any burden, on competition.

#### **5. Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

DTC has not received or solicited any written comments relating to this proposal. If any written comments are received, they would 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 Securities and Exchange Commission ("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-submitcomments>. 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](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

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

#### **6. Extension of Time Period for Commission Action**

Not applicable.

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

(a) The proposed rule change is to take effect immediately upon filing pursuant to Section 19(b)(3)(A) of the Act.<sup>12</sup>

(b) The proposed changes to the OA would effect changes to the Claims Compensation Process, as described above, that (A) would not adversely affect the safeguarding of securities or funds in the custody or control of DTC or for which it is responsible, and (B) would not significantly affect the respective rights or obligations of DTC or users of DTC's services,<sup>13</sup> because the Claims Compensation Process relates to funds that (i) may be owed by and issuer or agent to Participants, but are not in DTC's custody or control, and (ii) Participants have the ability to more efficiently make compensation claims directly to an agent and/or issuer, away from DTC, by pursuing claims they believe are worth pursuing.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notice 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

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(4)(i).



Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Service Guides and the OA.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_]; File No. SR-DTC-2023-007)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the Distributions Guide, Redemptions Guide, Reorganizations Guide, and Operational Arrangements, Relating to the Compensation Claims Process

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July \_\_, 2023, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

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

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

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

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

The proposed rule change<sup>5</sup> consists of modifications to the DTC Distributions Service Guide ("Distributions Guide"),<sup>6</sup> DTC Redemptions Service Guide ("Redemptions Guide"),<sup>7</sup> DTC Reorganizations Service Guide ("Reorganizations Guide,"<sup>8</sup> and collectively with the Distributions Guide and Redemptions Guide, "Service Guides") and the DTC Operational Arrangements (Necessary for Securities to Become and Remain Eligible for DTC Services) ("OA"),<sup>9</sup> relating to the process under which DTC, on behalf of its Participants, claims compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC principal and interest, or entitlements for a corporate actions event, on the scheduled payment date in immediately available funds ("Compensation Claims Process"), as described below.<sup>10</sup>

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<sup>5</sup> Each capitalized term not otherwise defined herein has its respective meaning as set forth the Rules, By-Laws and Organization Certificate of DTC (the "Rules"), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

<sup>6</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Service-Guide-Distributions.pdf>.

<sup>7</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Redemptions.pdf>.

<sup>8</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Reorganizations.pdf>.

<sup>9</sup> Available at <https://www.dtcc.com/-/media/Files/Downloads/legal/issue-eligibility/eligibility/operational-arrangements.pdf>.

<sup>10</sup> The respective Service Guides and OA are each a Procedure of DTC. Pursuant to the Rules, the term "Procedures" means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 5. They are binding on DTC and each Participant in the same manner that they are bound by the Rules. See Rule 27, supra note 5.

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 consists of modifications to the Service Guides and the OA relating to the Compensation Claims Process, as described below.

Background

As the holder of immobilized securities through its nominee, Cede & Co., DTC provides asset services that facilitate centralization, simplification, and automation in the processing of principal and income payments and corporate actions.<sup>11</sup> In this regard, DTC receives from agents, on behalf of its Participants, funds payments representing scheduled payments of dividends on equity securities or interest or principal on debt securities. These payments may include payments of principal and, in certain cases, payments of interest accrued from the preceding interest payment date. These payments are credited to the Participants to whom they are due (as reflected in DTC's records).

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<sup>11</sup> These services, including distributions, redemptions, and reorganizations, among others, are further described in applicable DTC service guides, available at <https://www.dtcc.com/legal/rules-and-procedures>.

DTC also receives and allocates funds payments in connection with redemptions of debt securities prior to their scheduled maturity. DTC also processes the allocation of cash and stock entitlements it receives in connection with reorganizations.

To the extent funds and identifying information are received, these entitlements pass through DTC and are credited to the accounts of Participants on the same day that they are paid to DTC, in accordance with the OA. Occasionally, DTC has received late payments of such entitlements, and Participants may not realize interest or other returns that they would have if the entitlements were timely paid by the agent.

Pursuant to the OA, DTC may, on behalf of Participants, elect to claim interest compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds.<sup>12</sup> The Distributions Guide and Redemptions Guide provide that DTC will make such claims on behalf of Participants for interest relating to late payments by agents. As such, DTC automatically and proactively claims interest compensation from agents who pay DTC after the payable date. Collected compensation is passed on to Participants that had a position in the late-paying issue.

Historically, the percentage and value of claims paid by agents is low relative to the amounts claimed despite considerable resources dedicated by DTC to this process.<sup>13</sup>

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<sup>12</sup> See OA, supra note 9, at 5.

<sup>13</sup> For example, for the two months of December 2022 and January 2023 combined, DTC made 51 claims to agents in a total amount of \$1,139,092.98. Of these claims, a total of 6 claims, or 12 percent were paid by the agents. The total dollar amount recovered was \$99,145.41, or less than 9 percent of the total claimed. For the months from August 2021 to September 2022, for more than half of the months DTC received payment in a value of less than 5 percent of the amount claimed. For each of three months during this period where the value recovered was over 50 percent of the amount claimed, the highest total number of claims in

This outcome may be due to factors arising away from DTC (e.g., unavailability of issuer funds to pay such claims, an agent paying a Participant interest outside of DTC, terms of a particular security, etc.). DTC believes it would be more efficient for Participants to manage their claims directly with agents, instead of via DTC, as they may have information relating to the terms of their investments and the underlying terms of the securities to determine whether a claim should be made and whether the pursuit of a claim is worth the use of their time and resources in relation to the value of the claim. Since Participants are better situated to make claims on their own, without DTC's intervention, DTC believes that the resources it uses to perform the Compensation Claims Process would be better used on other DTC processing functions. Therefore, DTC proposes to no longer automatically and proactively claim agents for late compensation on behalf of Participants. However, DTC would maintain discretion to submit compensations claims to an agent on behalf of a Participant, in the event the Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent, and so notifies DTC.

In addition, the proposed rule change would clarify the circumstances under which DTC may make claims relating to late payments of entitlements for reorganization events. Unlike distributions or redemptions, reorganization events do not necessarily have a scheduled or announced payment date across all our various event types. In this regard, DTC would clarify the OA that it may claim an agent or issuer on any of these dates, or any time entitlements are available to holders and DTC was not paid timely.

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a month was 6, and the amount highest total dollar amount claimed in a month was less than \$5,200.



Proposed Rule Change

Pursuant to the proposed rule change, the Compensation Claims Process language in the Distributions Guide and Redemptions Guide would be revised to state that if a Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent, and so notifies DTC, DTC may, rather than will, make claims on behalf of Participants for interest against agents and/or issuers relating to late payments by agents.

The text of the OA that provides that DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds would be clarified with respect to when DTC may make claims relating to reorganizations events. In this regard, text would be added to state that in the case of certain reorganization transactions, DTC may claim the agent and/or issuer if there is a failure to pay DTC in immediately available funds on the scheduled payment date or on the effective date (as it applies to the Reorganizations transaction), or on the first day funds are made available for payment. Consistent with the proposed text for the Distributions Guide and Redemptions Guide described above, the revised text would preface any election by DTC to pursue such a claim on a Participant notifying DTC that it was unsuccessful in making its own direct claims for compensation to an issuer or agent.

The text of the Reorganizations Guide, which currently does not address compensation claims, also would be amended to add similar language as that proposed for the OA, above. Specifically, the Reorganizations Guide would state that in the case of reorganization transactions, if a Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent, and so notifies DTC, DTC may claim the agent

and/or issuer if there is a failure to pay DTC in immediately available funds on the scheduled payment date or on the effective date, or the first day funds are made available for payment.

#### Effective Date

The proposed rule change is to become immediately effective upon filing.

#### 2. Statutory Basis

Section 17A(b)(3)(F) of the Act<sup>14</sup> requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. As described above, the proposed rule change would revise the OA and Service Guides such that DTC would no longer automatically and proactively engage in the Compensation Claims Process on behalf of Participants; rather DTC may make such claims to the extent a Participant is unsuccessful in making its own direct claims for compensation to an issuer or agent. As described above, (i) Participants are better situated than DTC to determine when and how to make compensation claims in accordance with their own priorities, and (ii) the proposal would enable the reallocation of DTC's resources that are currently used for the Compensation Claims Process, to other functions that support DTC services, thus helping to promote prompt and accurate clearance and settlement. Therefore, DTC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(21)<sup>15</sup> promulgated under the Act requires, inter alia, that DTC, a covered clearing agency, establish, implement, maintain, and enforce written policies and

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<sup>14</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>15</sup> 17 CFR 240.17Ad-22(e)(21).

procedures reasonably designed to, as applicable, be efficient and effective in meeting the requirements of its participants and the markets it serves. As described above, the proposed rule change would revise the OA and Service Guides such that DTC would no longer automatically and proactively submit compensation claims to agents and/or issuers, except DTC may make such claims at its discretion. As noted above, the percentage of claims paid in both actual and dollar value amounts are historically low, which does not warrant DTC expending resources to recover the funds. Instead, DTC believes it could more effectively and efficiently apply the resources allocated to the Compensation Claims Process to other core DTC processing functions. Therefore, DTC believes that the proposed rule change would help promote efficiency and effectiveness in DTC meeting the requirements of its participants and the markets it serves, consistent with Rule 17Ad-22(e)(21).

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

DTC does not believe that the proposed rule change would have any impact, or impose any burden, on competition.

As described above, the proposed rule change consists of changes to the OA and Service Guides to clarify DTC's Compensation Claims Process and changes this process so that DTC would no longer automatically and proactively makes claims for interest on late payments. As described above, the amount, both in actual and dollar amounts, of claims recovered is low relative the amount and value of claims DTC makes to agents, and the value Participants receive in return is minimal. In addition, DTC believes that Participants can more efficiently make compensation claims directly to an agent and/or issuer, away from DTC, by pursuing claims they believe are worth pursuing. Therefore,

given the minimal benefit realized by Participants from the current Compensation Claims Process, and that Participants may engage agents more efficiently on their own to make such claims, DTC believes that the proposed rule change would not have any impact or impose any burden, on competition.

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

DTC has not received or solicited any written comments relating to this proposal. If any written comments are received, they would 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-submitcomments>. 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](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

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

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>16</sup> of the Act and paragraph (f)<sup>17</sup> of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2023-007 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

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

All submissions should refer to File Number SR-DTC-2023-007. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-DTC-2023-007 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).



## EXHIBIT 5

**Bold and underlined** text indicates proposed additions.

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

### Distributions Service Guide

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#### Refunds

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If DTC receives funds from a paying agent, but is unable to distribute those funds on that day, DTC will pass through the investment income it has earned to those participants who received the associated allocation. These credits will be seen as part of your monthly bill from DTC.

~~DTC claims interest compensation from those agents who pay DTC after the payable date. In the event that a Participant is unsuccessful in collecting directly from a paying agent or an issuer a claim for compensation due, and so notifies DTC, DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds.~~ Collected compensation is passed on to participants that had position in the late-paying issue. These credits will also be seen as part of your monthly bill from DTC and statements are available on SMART/Search.

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## Redemptions Service Guide

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### REDEMPTIONS

## About Maturities and Redemptions

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### About Redemptions

Unlike maturities, most redemptions (full calls or partial calls) are not known at issuance. Thus, the first step in processing a redemption is discovering its existence. Once DTC verifies an upcoming redemption, DTC presents a letter of transmittal or electronic file of expected payments due to the redemption agent for payment.

In the event of a partial call, DTC will process a computerized call lottery to determine the Participants' individual holdings to be included in the call. On redemption date or the next business day if the redemption date falls on a weekend or holiday, DTC collects redemption proceeds from the agent, allocates the proceeds to DTC Participants having position in the redeemed portion of the issue and deletes such Participants' position from DTC's records. Allocations are reported on the Participants' Dividend/Reorganization Cash Settlement Listing on the day they are made. Note that DTC will not allocate on the redemption date unless it has received the funds identified at a CUSIP level from the agent by 3:00 p.m. ET.

Some full and partial call notices contain language stating that the payment of the redemption proceeds is conditioned upon some event. DTC only allocates redemption proceeds to Participants upon receipt of funds from the redemption agent.

Information regarding DTC's processing of Redemptions is generally available via CA Web, PTS/PBS (RIPS), CCF file transmissions, ISO 20022 messaging and SMART/Search.

The information provided on these functions is derived from sources DTC believes to be reliable, but DTC does not represent the accuracy, adequacy, timeliness, completeness, or fitness for any particular purpose of this information, which is provided as is. Further, this information may be subject to change. Participants should obtain, monitor and review independently any available documentation relating to the redemption and should verify independently information obtained from DTC.

DTC will not be liable for claims for interest on missed or late principal payments on redemptions for which DTC received no notice or late notice. **In the event that a Participant is unsuccessful in collecting directly from a paying agent or an issuer a claim for compensation due, and so notifies DTC, DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds. DTC will, however, initiate compensation claims against paying agents whenever appropriate and DTC** will pass on to Participants through DTC's redemption refunds any amounts received on such claims.

DTC will not process early redemptions on Certificates of Deposit (CDs) unless: (i) there is a provision in the master certificate that permits early termination by the issuer and specifies the payment to be made in connection therewith or (ii) written consent to an early redemption, in a form designed by DTC, is obtained by the issuer from all of the holders of the CD. In the event that an issuer sends an early payment to DTC, in contravention of the above, DTC will return the payment to the issuer less any costs associated with facilitating the attempted redemption and return of funds.

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## REDEMPTION REFUNDS

The overwhelming majority of redemption proceeds are allocated by DTC to Participants on payable date. In the event that DTC does not pay Participants' redemption proceeds on redemption date, Participants may be entitled to a refund.

A redemption refund is caused by two types of events, both of which involve late allocations of redemption proceeds by DTC to Participants:

- receipt of funds by DTC on payable date, followed by allocation of funds by DTC to Participants after payable date,

OR

- receipt of funds by DTC and allocation of funds by DTC to Participants after payable date.

The first type of event results in a refund to Participants of their pro-rata share of DTC's investment earnings. The second type of event does not generate a refund of investment earnings; rather, ~~it results in DTC submitting compensation claims to redemption agents.~~ In the event that a Participant is unsuccessful in collecting directly from a paying agent or an issuer a claim for compensation due, and so notifies DTC, DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds. Participants receive their pro-rata share of the total amount received on DTC's claim.

Redemption refunds are paid to Participants monthly via credits to their monthly DTC bill.

Supporting schedules listing details of items included in each refund are attached to Participants' monthly bill.

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## Reorganizations Service Guide

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### About Allocations

Upon receipt of the confirmed position and entitlements from the agent, DTC will allocate cash and stock to participants, ensuring that cash and stock payments are received on a timely basis, and in turn paid out to participants as soon as possible. DTC accomplishes this by maintaining constant contact with the appropriate paying agents and following through with disbursements to participants.

**In the event that a Participant is unsuccessful in collecting directly from a paying agent or an issuer a claim for compensation due, and so notifies DTC, DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event in immediately available funds on the scheduled payment date or on the effective date, as applicable, or on the first day funds are made available for payment.**

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# OPERATIONAL ARRANGEMENTS

(Necessary for Securities to Become  
and Remain Eligible for DTC Services)

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## 2. Compensation Claims Policy

**In the event that a Participant is unsuccessful in collecting directly from a paying agent or an issuer a claim for compensation due, and so notifies DTC, DTC may elect to claim compensation for payments due from the Paying Agent and/or Issuer if there is a failure to pay DTC for an event on the scheduled payment date in immediately available funds, and in the case of certain reorganization transactions, if there is a failure to pay DTC in immediately available funds on the scheduled payment date or on the effective date (as it applies to the Reorganization transaction), or on the first day funds are made available for payment.**

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