

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83058; File No. SR-DTC-2018-003)

April 17, 2018

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the DTC Redemptions Service Guide and the DTC Reorganizations Service Guide to Add Clarifying Text Relating to the Processing of MMI Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 16, 2018, 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 change³ consists of proposed modifications to the DTC Reorganizations Service Guide (“Reorganizations Guide”)⁴ and the DTC Redemptions

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 the Rules, By-Laws and Organization Certificate of The Depository Trust Company (“Rules”), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx> and the DTC Settlement Service Guide (“Settlement Guide”), available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>.

⁴ Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Reorganization-Service-Guide.pdf>.

Service Guide (“Redemptions Guide”)⁵ to make clarifying changes and provide enhanced transparency within DTC’s Procedures⁶ relating to the processing of transactions in money market instruments (“Money Market Securities”) in DTC’s MMI Program,⁷ as described below.

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

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

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

⁵ Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Redemptions.pdf>.

⁶ 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 3, at 13.

⁷ Pursuant to the Rules, the term MMI Program means the Program for transactions in MMI Securities, as provided in Rule 9(C) and as specified in the Procedures. See Rule 1, Section 1, *supra* note 3, at 10. Eligibility for inclusion in the MMI Program covers MMI Securities, which are short-term debt Securities that generally mature 1 to 270 days from their original issuance date. MMI Securities include, but are not limited to, commercial paper, banker’s acceptances and short-term bank notes and are issued by financial institutions, large corporations, or state and local governments. Most MMI Securities trade in large denominations (typically, \$250,000 to \$50 million) and are purchased by institutional investors. Eligibility for inclusion in the MMI Program also covers medium term notes that mature over a longer term.

1. Purpose

The proposed rule change consists of proposed modifications to the DTC Reorganizations Guide and the DTC Redemptions Guide to make clarifying changes and provide enhanced transparency within DTC's Procedures relating to the processing of transactions in MMI Securities in DTC's MMI Program, as discussed below.

Background

When an issuer of MMI Securities ("Issuer") issues MMI Securities at DTC, the Issuing and Paying Agent ("IPA") for that Issuer sends issuance instructions to DTC electronically, which results in crediting the applicable MMI Securities to the DTC Account of the IPA. These MMI Securities are then Delivered to the Accounts of applicable Participants that are purchasing the issuance of MMI Securities in accordance with their purchase amounts. These purchasing Participants typically include broker/dealers or banks, acting as custodians for institutional investors. The IPA Delivery instructions may be free of payment or, most often, Delivery Versus Payment. Deliveries of MMI Securities are processed pursuant to the same Rules and the applicable Procedures set forth in the Settlement Guide, as are Deliveries generally, whether free or versus payment. Delivery Versus Payment transactions are subject to risk management controls of the IPA and Receiving Participants for Net Debit Cap and Collateral Monitor

sufficiency,⁸ and payment for Delivery Versus Payment transactions is due from the receiving Participants through DTC's net settlement process. To the extent, if any, that the Participant has a Net Debit Balance in its Settlement Account at end-of-day, payment of that amount is due to DTC.

In 2017, DTC implemented rule changes ("2017 Changes") relating to the processing of MMI Securities to improve the efficiency and reduce risks associated with the processing of transactions in MMI Securities, as described in the rule filing pursuant to which the 2017 Changes were implemented.⁹ The 2017 Changes included amendments to the Rules, Settlement Guide¹⁰ and DTC Distributions Service Guide ("Distributions Guide")¹¹ in this regard.

⁸ Delivery Versus Payment transfers at DTC are structured so that the completion of Delivery of Securities to a Participant in end-of-day settlement is contingent on the receiving Participant satisfying its end-of-day net settlement obligation, if any. The risk of Participant failure to settle is managed through risk management controls, structured so that DTC may complete settlement despite the failure to settle of the Participant, or Affiliated Family of Participants, with the largest net settlement obligation. The two principal controls are the Net Debit Cap and Collateral Monitor. The largest net settlement obligation of a Participant or Affiliated Family of Participants cannot exceed DTC liquidity resources, based on the Net Debit Cap, and must be fully collateralized, based on the Collateral Monitor. This structure is designed so that DTC may pledge or liquidate Collateral of the defaulting Participant in order to fund settlement among non-defaulting Participants. Liquidity resources, including the Participants Fund and a committed line of credit with a consortium of lenders, are available to complete settlement among non-defaulting Participants.

⁹ Securities Exchange Act Release No. 34-79764 (January 9, 2017), 82 FR 4434 (January 13, 2018) (SR-DTC-2016-008).

¹⁰ Supra note 3.

¹¹ Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Service%20Guide%20Distributions.pdf>.

While the Rules and Procedures governing the processing of transactions in MMI Securities are primarily contained in the Rules¹² and the Settlement Guide,¹³ the Distributions Guide was amended pursuant to the 2017 Changes to make clarifying changes to text relating to the processing of Income Presentments,¹⁴ so that it is consistent with the Settlement Guide in that regard.

The proposed rule change would make clarifying changes to the Reorganizations Guide and Redemptions Guide to add text similar to that included in the Distributions Guide¹⁵ pursuant to the 2017 Changes and clarify certain aspects of processing relating more specifically to Reorganization Presentments and Maturity Presentments, as described below.

Proposed Changes to the Redemptions Guide

As mentioned above, provisions governing the processing of transactions in MMI Securities are primarily contained in the Rules and Settlement Guide. The Redemptions Guide currently contains provisions relating to the processing of maturity events for non-MMI Securities and does not contain text relating to the processing of maturities of MMI Securities. In order to provide (i) enhanced clarity for Participants, and (ii) a point of

¹² See Rule 9(A), Rule 9(B) and Rule 9(C), supra note 3.

¹³ See supra note 3 at 45-47.

¹⁴ Pursuant to the Rules, the term “Income Presentment” means an instruction initiated by DTC to credit the Account of DTC with an amount of interest or dividend income payable to DTC by an issuer in respect of MMI Securities (other than an amount of interest or dividend income or other distribution of cash or property payable to DTC by the issuer in connection with a Maturity Presentment or a Reorganization Presentment) and to debit the designated Paying Agent Account for that issue with the same amount, as provided in Rule 9(C) and as specified in the Procedures. See Rule 1, Section 1, supra note 1, at 7.

¹⁵ See supra note 11 at 28.

reference within the Redemptions Guide, with respect to processing of transactions in maturing MMI Securities, the proposed rule change would amend the Redemptions Guide to (a) add a brief description of Maturity Presentments and the processing of transactions relating to them, (b) add a brief description of the “Settlement User Interface,” which is used by Participants to submit input and inquiries relating to the processing of transactions in MMI Securities in accordance with the Settlement Guide,¹⁶ and (c) provide a cross-reference to the Settlement Guide for Procedures relating to processing of transactions in MMI Securities.

In this regard, the following text would be added to a new section of the Redemptions Guide that would be titled “Maturity Presentments for MMI Issues,” as follows:

A “Maturity Presentment” is a Delivery Versus Payment (as defined in Rule 1) of matured money market instruments (MMI Securities) from the account of a presenting Participant to a designated paying agent account for that issue and is subject to, and is processed in accordance with, Rule 9(A), Rule 9(B), Rule 9(C) of DTC and the Procedures set forth in the DTC Settlement Service Guide. Maturity Presentments are not attempted for processing until the issuer’s issuing and paying agent (IPA) makes a funding decision in the form of an “MMI Funding Acknowledgment.” Once a funding decision is made items will be processed subject to risk controls and the sufficient inventory of the relevant Participants. IPAs and other Participants may submit input and inquiries relating to MMI Securities processing through the Settlement User Interface. See the DTC

¹⁶ See supra note 3 at 5.

Settlement Service Guide, available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>, for the DTC Procedures relating to the processing of transactions in MMI Securities.

Proposed Changes to the Reorganizations Guide

As mentioned above, provisions governing the processing of transactions in MMI Securities are primarily contained in the Rules¹⁷ and Settlement Guide.¹⁸ The Reorganizations Guide currently contains provisions relating to the processing of reorganizations for non-MMI Securities and does not contain text relating to the processing of Reorganization Presentments. In order to provide (i) enhanced clarity and transparency for Participants, and (ii) a point of reference within the Reorganizations Guide, with respect to processing of Reorganization Presentments, the proposed rule change would amend the Reorganizations Guide to (a) add a brief description of Reorganization Presentments and the processing of transactions relating to them, (b) add a brief description of the “Settlement User Interface,” which is used by Participants to submit input and inquiries relating to processing of transactions in MMI Securities in accordance with the Settlement Guide,¹⁹ and (c) provide a cross-reference to the Settlement Guide for Procedures relating to the processing of transactions in MMI Securities.

¹⁷ See supra note 12.

¹⁸ See supra note 13.

¹⁹ See supra note 16.

In this regard, the following text would be added to a new section of the Reorganizations Guide that would be titled “Reorganization Presentments for MMI Issues,” as follows:

A “Reorganization Presentment” is a Delivery Versus Payment (as defined in Rule 1) of money market instruments (MMI Securities) in response to a reorganization action from the account of a presenting Participant to a designated paying agent account for that issue, and is subject to, and is processed in accordance with Rule 9(A), Rule 9(B), Rule 9(C) of DTC and the Procedures set forth in the Settlement Service Guide. Reorganization Presentments are not attempted for processing until the issuer’s issuing and paying agent (IPA) makes a funding decision in the form of an “MMI Funding Acknowledgment.” Once a funding decision is made items will be processed subject to risk controls and the sufficient inventory of the relevant Participants. IPAs and other Participants may submit input and inquiries relating to processing of transactions in MMI Securities through the Settlement User Interface. See the DTC Settlement Service Guide, available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>, for the DTC Procedures relating to the processing of transactions in MMI Securities.

Effective Date

The proposed rule change would become effective upon filing with the Commission.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act²⁰ requires that the rules of the clearing agency be designed, inter alia, to promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the proposed rule change is consistent with this provision of the Act because by adding text within the Procedures set forth in the Redemptions Guide and Reorganizations Guide regarding the processing of MMI Securities, the proposed rule change would provide enhanced clarity and transparency for Participants with respect to the Rules and Procedures relating to the processing of Maturity Presentments and Reorganization Presentments, as described above. Therefore, by providing Participants with enhanced clarity and transparency with regard to the Procedures relating to the processing of Maturity Presentments and Reorganizations Presentments, DTC believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions consistent with the Act.

(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. The proposed rule change would merely clarify and provide enhanced transparency with respect to the processing of transactions in MMI Securities by adding text to the Redemptions Service Guide and the Reorganizations Service Guide that is consistent with existing provisions set forth in the Rules and the Settlement Guide, as described above.

²⁰ 15 U.S.C. 78q-1(b)(3)(F).

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

Written comments relating to this proposed rule change have not been solicited or received. DTC will notify the Commission of any written comments received by DTC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²¹ and paragraph (f) of Rule 19b-4 thereunder.²² 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. Please include File Number SR-DTC-2018-003 on the subject line.

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f).

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-2018-003. 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-2018-003 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.²³

Eduardo A. Aleman
Assistant Secretary

²³ 17 CFR 200.30-3(a)(12).