

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87879; File No. SR-DTC-2019-009)

January 2, 2020

Self-Regulatory Organizations; The Depository Trust Company; Order Approving a Proposed Rule Change to Amend the Redemptions Guide Relating to the Call Lottery Process for Partial Redemptions

I. Introduction

On October 31, 2019, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposed rule change SR-DTC-2019-009. The proposed rule change was published for comment in the Federal Register on November 19, 2019.³ The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description of the Proposed Rule Change

DTC proposes to modify its Procedures⁴ set forth in the DTC Corporate Actions Redemptions Service Guide (“Redemptions Guide”)⁵ in order to amend its call lottery

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 87526 (November 13, 2019), 84 Fed. Reg. 63915 (November 19, 2019) (SR-DTC-2019-009) (“Notice”).

⁴ Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC (the “Rules”), available at http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf.

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

process relating to the processing of partial redemptions (“Partial Calls”) with respect to allocations made for odd lot positions in a called Security held by a Participant.

A. Background

Partial Calls and the Call Lottery

An issuer of a Security may be allowed under the terms of the issue to call a portion of the par value of the issue outstanding for redemption at certain times during the life of the issue, i.e., a Partial Call.⁶ In such case, some investors may have all or a portion of their position redeemed by the issuer, while others may not have any portion of their position redeemed.

When an issuer initiates a Partial Call, DTC’s Procedures require the trustee for the issue to publish notice of such event or mail notice of the event, including the specific amount to be redeemed, to the registered holders.⁷ After DTC receives or collects notice of the Partial Call, DTC creates an announcement through its redemptions service,⁸ and preliminary call notice information is made available to Participants.⁹

Under DTC’s Procedures set forth in the Redemptions Guide relating to a Partial Call, DTC allocates the called Securities among Participants that hold the applicable Security by means of an impartial lottery, based upon Participants’ net long positions as

⁶ See id. at 19.

⁷ See id.

⁸ DTC’s redemptions service includes announcing, collecting, allocating, and reporting redemption and maturity payments on behalf of its Participants holding Eligible Securities. See id. at 7.

⁹ See id. at 19.

of the close of business on the day prior to the publication of the call notice.¹⁰ Upon performing the call lottery, DTC reports the results to Participants.¹¹

Odd Lots

An odd lot occurs when a Participant holds a position in a Security that is not within the stated increments of the Security, i.e., the par value at which, pursuant to the terms of the issue, the Security can be purchased and traded. For example, a bond contract for a Security may provide that all purchases must be made in authorized denominations equal to a multiple of \$5,000, the minimum incremental value. Therefore, any amount held by a Participant that is not a multiple of \$5,000, such as a position with a value of \$5,001, would be an odd lot.¹² DTC states that running the lottery with the odd lot position intact could result in another Participant being driven into an odd lot position.¹³

¹⁰ See id.

¹¹ See id. at 21.

¹² An odd lot position may be created, for example, as a result of a beneficial holder's account at a Participant being split into two accounts as a result of divorce or the administration of the estate of the beneficial holder. If the division of the assets in the beneficial holder's account at the Participant ultimately results in a portion of the beneficial holder's position in the subject Security being transferred to another Participant, and the remaining balance of the Security in the beneficial holder's account at the Participant that held the full position prior to the split is not in a par value amount that is a multiple of the authorized denomination, then an odd lot amount could be created in the Participant's DTC account.

¹³ DTC states that odd lot positions are more difficult to trade due to the terms of the issue requiring trades to be made only in multiples of the incremental value. Supra note 3, at 4.

B. Proposed Change

DTC proposes to amend its Redemptions Guide to revise its call lottery process such that, for issues where the incremental value is \$5,000 or less, Participants with odd lot positions would have their positions adjusted down to the nearest value that is divisible by the minimum incremental value for purposes of the lottery. However, the Participant would continue to hold the Securities reduced from its position for this purpose in its Account. Thus, the Participant with the initial odd lot for issues where the incremental value is \$5,000 or less would continue to maintain an odd lot position after the lottery is run, and no new odd lot positions would be created.

In addition, a copyright date in the text of the Redemptions Guide is currently shown as 1999-2014. DTC proposes to revise the text of the Redemptions Guide to reflect a copyright date of 1999-2019.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act¹⁴ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After carefully considering the proposed rule change, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC. In particular, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.¹⁵

¹⁴ 15 U.S.C. 78s(b)(2)(C).

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.¹⁶

As described above, the proposal would prevent the creation of new odd lot positions during the lottery process for issues where the incremental value is \$5,000 or less, which would facilitate the allocation of positions that are more amenable to trading for transactions that are processed and settled through DTC's system. Therefore, the proposal should promote the prompt and accurate clearance and settlement of securities transactions that are processed and settled through DTC's system.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and, in particular, with the requirements of Section 17A of the Act¹⁷ and the rules and regulations promulgated thereunder.

¹⁶ Id.

¹⁷ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act¹⁸ that proposed rule change SR-DTC-2019-009, be, and hereby is, APPROVED.¹⁹

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

J. Matthew DeLesDernier
Assistant Secretary

¹⁸ 15 U.S.C. 78s(b)(2).

¹⁹ In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁰ 17 CFR 200.30-3(a)(12).