

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54521; File No. SR-DTC-2006-11)

September 27, 2006

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Allow the Inventory Management System to Accept Real-Time and Late Affirmed Trades from Omgeo

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> notice is hereby given that on July 11, 2006, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) and on September 20, 2006, amended the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

DTC is seeking to expand its Inventory Management System (“IMS”) to accept in real-time non-Continuous Net Settlement (“non-CNS”) institutional trades from Omgeo LLC (“Omgeo”) and to accept late affirmed trades into IMS for automated settlement at DTC.

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

In its filing with the Commission, DTC 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. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>2</sup>

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

<sup>2</sup> The Commission has modified the text of the summaries prepared by DTC.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Current Process for IMS

Omgeo's TradeSuite system currently feeds DTC a batch file of approximately 320,000 eligible affirmed institutional trades at approximately 1:00 p.m. on T+2. Delivering DTC participants then authorize or exempt these trades in IMS for automated settlement to be attempted at DTC. Any trades affirmed after 12:00 p.m. on T+2 are ineligible for automated settlement at DTC via the TradeSuite interface. These late affirmed trades are typically settled by the broker-dealer or custodian by processing a DTC Delivery Order ("DO"). These DOs experience a higher reclaim rate than deliveries of eligible affirmed trades.

2. Proposed Changes

DTC is proposing to enhance its interface with Omgeo to accept eligible affirmed non-CNS trades from Omgeo's TradeSuite system in real-time. Although DTC would receive affirmed trades from Omgeo's TradeSuite system in real-time as they are affirmed, participants would still have the ability to process authorizations and exemptions as they do today.

Participants would be able to authorize trades as they are received into IMS through the existing options (*i.e.*, globally or on a trade-for-trade basis). Omgeo would continue to produce the Cumulative Eligible Trade report/file at approximately 1:00 p.m. on T+2. This batch report/file notifies participants of affirmed MITS trades sent to IMS for the following settlement date. However, IMS would continue the current practice of applying a participant's authorization profile (delivery order) for Matched Institutional Trades ("MITS") after the midday cut-off on T+2 (at approximately 1:00 p.m.).

In addition, some new functionality is also being introduced through the enhanced Omgeo and DTC interface. Omgeo would send “late affirmed”<sup>3</sup> trades to IMS. Late affirmed trades would be stored and identified in IMS as a new transaction type, Late Matched Institutional Trades (“LMIT”). These trades are currently ineligible for automated settlement at DTC. This functionality will allow participants to eliminate settling these transactions as DOs at DTC, which experience a higher reclaim rate than affirmed eligible trades, and will provide for the automated settlement of these transactions.

For the new LMITs, IMS would default to the “active” authorization mode (i.e., deliveries would not be processed unless they are authorized). Unauthorized “late affirmed” trades would remain in IMS until settlement date + 21 days (the current IMS trade retention time frame). For authorized LMIT items, IMS would apply a participant’s authorization profile as the items are received from Omgeo. LMITs would bypass DTC’s Receiver Authorized Delivery (“RAD”) processing as do all Omgeo deliveries.

Omgeo would notify both IMS and DTC participants directly using a status message of any Change of Eligibility (“COE”).<sup>4</sup> COE (i.e., DTC-eligible to DTC-ineligible) messages

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<sup>3</sup> Late affirmed trades are defined as trades affirmed after the 12:00 p.m. cutoff on T+2 until 12:00 p.m. on settlement date.

<sup>4</sup> COE related messages can be sent for the following reasons:

- (1) When a DTC eligible trade changes to CNS eligible, the trade is re-sent to IMS by Omgeo with an indicator that it is now ineligible (IMS status becomes ineligible). Omgeo will then send the trade to NSCC for settlement via CNS. A trade can become CNS eligible after being DTC eligible, if the security, ID Agent (a prime broker), Clearing Agent, and Clearing Broker all are CNS eligible.
- (2) When a DTC eligible trade subsequently becomes ineligible for settling at DTC, the trade is re-sent to IMS by Omgeo with an indicator that it is now Ineligible (IMS status updated to ineligible). A Trade may become ineligible for DTC

would be passed to IMS by TradeSuite up until midnight of T+1. IMS would process COE related messages on a real-time basis for both authorized and yet to be authorized trades. IMS would “reauthorize” a previously authorized DTC-eligible trade in the event the trade becomes DTC-eligible, again. In addition, an appropriate audit trail would be provided by IMS for participants. Ineligible MITS transactions in IMS would be cancelled at end of day on settlement date.

DTC would charge the following delivery fees for LMITs:

- \$0.17 (current Night Delivery Order fee) if authorized by the participant before the night cycle.
- \$0.45 (current day DO fee) if authorized by the participant after the night cycle.
- \$0.006 per delivery (current IMS delivery fee) for every trade that is processed through the IMS authorization profile.

Participants that currently submit machine-readable authorization/exemption instructions could choose to continue to process their Omgeo deliveries as they do today. The proposed change is scheduled to be implemented in November 2006.

DTC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>5</sup> and the rules and regulations thereunder applicable to DTC because it should promote the prompt and accurate clearance and settlement of securities transactions by

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settlement processing if prior to settlement date, the participant, security, or ID Agent become ineligible for DTC processing.

- (3) If a previously sent DTC eligible trade changed to ineligible becomes eligible for settling at DTC, again, the trade is re-sent to IMS by Omgeo with an indicator that it is now eligible (IMS status is updated to eligible from ineligible).

<sup>5</sup> 15 U.S.C. 78q-1.

allowing IMS to enhance its interface with Omgeo to accept eligible affirmed trades from Omgeo's TradeSuite system in real-time and to accept late affirmed trades into IMS for automated settlement at DTC. In addition, the proposed rule change should provide for the equitable allocation of reasonable dues, fees, and other charges among DTC's members.

(B) Self-Regulatory Organization's Statement on Burden on Competition

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

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

DTC has not solicited or received any written comments on this proposal. DTC will notify the Commission of any written comments it receives.

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

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date 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 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, as amended, 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-2006-11 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-DTC-2006-11. 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 Web site (<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 inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of DTC and on DTC's Web site at

<https://login.dtcc.com/dtcorg/>. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2006-11 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

Nancy M. Morris  
Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).