

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55239; File No. SR-DTC-2006-15)

February 5, 2007

Self-Regulatory Organizations; The Depository Trust Company; Order Granting
Approval of a Proposed Rule Change Relating to the Canadian Link Service

I. Introduction

On October 10, 2006, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2006-15 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ Notice of the proposal was published in the Federal Register on December 8, 2006.² No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

The proposed rule change amends DTC’s Rule 30, Canadian-Link Service, to allow certain Canadian-Link transactions to settle in U.S. dollars. DTC’s Canadian-Link Service currently allows participants of DTC (“DTC Participants”) to clear and settle two categories of securities transactions in Canadian dollars: (1) transactions with participants of The Canadian Depository for Securities Limited CDS (“CDS Participants”) and (2) transactions with other DTC Participants. The Canadian-Link Service also allows DTC Participants to transfer Canadian dollar funds to CDS Participants through the facilities of CDS and to other DTC Participants through Canadian settlement banks acting for DTC and such DTC Participants. The proposed rule change would add an additional functionality to the Canadian-Link Service to allow

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 54855, (December 1, 2006), 71 FR 71206.

DTC Participants to settle certain securities transactions with CDS Participants in U.S. dollars (“cross border U.S. dollar securities transactions”). Set forth below is a description of the current Canadian-Link Service and a description of the proposed change.

Current Functionality of the Canadian-Link Service

The Canadian-Link Service currently allows DTC Participants to clear and settle valued securities transactions in Canadian dollars with CDS Participants through the link between DTC and CDS. The securities that may be the subject of these transactions are securities that are eligible for book-entry transfer through the facilities of CDS and DTC (“Full-Service Canadian-Link Securities”) and securities that are eligible for book-entry transfer through the facilities of CDS but not through DTC (“Limited Service Canadian-Link Securities”). The securities are delivered to and from CDS Participants through the facilities of CDS. Money settlement between DTC and CDS is included in Canadian dollar money settlement at CDS. Money settlement between DTC and DTC Participants takes place between Canadian settlement banks acting for DTC and such DTC Participants.

The Canadian-Link Service allows DTC Participants to clear and settle valued transactions in Canadian dollars with other DTC Participants through the facilities of DTC. The securities that may be the subject of these transactions are Full-Service Canadian-Link Securities. The securities are delivered to and from DTC Participants through the facilities of DTC. Money settlement between DTC and DTC Participants takes place through Canadian settlement banks acting for DTC and such DTC Participants.

The Canadian-Link Service allows DTC Participants to transfer Canadian dollar funds without any corresponding delivery or receipt of securities to CDS Participants or other DTC Participants. Transactions between DTC Participants and CDS Participants are processed through the facilities of CDS. Transactions between DTC Participants and other DTC Participants are processed through Canadian settlement banks acting for such DTC Participants.

The proposed rule change would not change any of the existing components of the Canadian-Link Service and except for cross border U.S. dollar securities transactions, as set forth below, would not change how securities transactions are currently processed through the Canadian-Link Service.

Enhancement to the Canadian-Link Service

The proposed rule change enhances the Canadian-Link Service to allow DTC Participants to clear and settle certain valued securities transactions in U.S. dollars with CDS Participants through the link between DTC and CDS.³ The securities that will be the subject of U.S. dollar settlement are Limited-Service Canadian-Link Securities (i.e., securities that are eligible for book-entry transfer through the facilities of CDS but not DTC). The securities will be delivered to and from CDS Participants through the facilities of CDS. Money settlement between DTC and CDS will be included in U.S. dollar money settlement at DTC. Money settlement between DTC and DTC Participants will also be included in U.S. dollar money settlement at DTC together with the settlement of DTC Participants' other transactions at DTC. As the foregoing indicates, these cross

³ DTC has represented to the Commission that some transactions executed in Canadian markets, either on a stock exchange or over-the-counter, are settled in U.S. dollars. Transactions that settle in U.S. dollars are reported to DTC in U.S. dollar amounts. DTC does not convert settlement amounts from Canadian to U.S. dollars.

border U.S. dollar securities transactions will be processed in substantially the same way that transactions are now processed except that these transactions would settle in U.S. dollars rather than in Canadian dollars and the place of money settlement will be at DTC rather than at CDS or through Canadian settlement banks.

The proposed rule change also adds new definitions to DTC Rule 30 to distinguish between transactions between DTC Participants and CDS Participants (“Cross-Border Securities Transactions”) and transactions between only DTC Participants (“Intra-DTC Securities Transactions”). The proposed rule change also adds new definitions to distinguish between transactions that settle in U.S. dollars and transactions that settle in Canadian dollars (for example, “Cross-Border CAD Securities Transactions” and “Intra-DTC USD Securities Transactions”).

Risk Management Controls

Set forth below is a description of DTC’s risk management controls with respect to the Canadian-Link Service and how these risk management controls will be affected as a result of the proposed rule change.

1. Canadian-Link Required Participants Fund Deposit. A DTC Participant that uses the Canadian-Link Service is currently required to make an additional required deposit to the DTC participants fund that is determined in accordance with a formula that takes into account the volume of cross-border Canadian dollar securities transactions processed by DTC for such DTC Participant. Under the proposed rule change, such formula will also take into account the volume of cross-border U.S. dollar securities transactions processed by DTC for such DTC Participant.

2. Security for Canadian-Link Transactions. A DTC Participant that uses the Canadian-Link Service is currently required to pledge to DTC its interest in the securities

subject to cross-border Canadian dollar securities transactions that are held by DTC for such DTC Participant at CDS. Under the proposed rule change, such DTC Participant will also be required to pledge to DTC its interest in the securities subject to cross-border U.S. dollar securities transactions that are held by DTC for such DTC Participant at CDS.

3. Canadian-Link Service Net Debit Caps of Canadian-Link Participants. A DTC Participant that uses the Canadian-Link Service is currently subject to a net debit cap on the negative Canadian dollar balance that may, from time to time, be incurred by such DTC Participant with respect to its use of the Canadian-Link Service. Under the proposed rule change, a DTC Participant will also be subject to a net debit cap on the negative U.S. dollar balance that may from time to time be incurred by such DTC Participant with respect to its cross-border U.S. dollar securities transactions. The proposed rule change will add new definitions to DTC Rule 30 to take into account that there will be separate Net Debit Caps for U.S. and for Canadian dollar transactions.

4. Collateral Monitor of Canadian-Link Participants. A DTC Participant that uses the Canadian-Link Service is currently subject to the DTC collateral monitor with respect to its use of the Canadian-Link Service. Under the proposed rule change, a DTC Participant will also be subject to the DTC collateral monitor with respect to its cross-border U.S. dollar securities transactions.

As the foregoing indicates, cross-border U.S. dollar securities transactions will be subject to essentially the same risk management controls that are already applicable to the other securities transactions currently processed through the Canadian-Link Service.

III. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or

control of the clearing agency or for which it is responsible. The Commission first approved Rule 30 to permit DTC to provide the Canadian-Link Service in 2005.⁴ In its order granting approval of Rule 30, the Commission found that rule satisfies the requirements of Section 17A of the Act because while streamlining the clearance and settlement of Canadian Dollar transactions at DTC, it includes sufficient procedures to assure the safeguarding of securities and funds which are in DTC's custody or control or for which it is responsible.

The proposed rule change, by adding to the transactions that are eligible to be cleared and settled through the Canadian-Link Service, is designed to encourage more CDS-Link Participants to use and to benefit from the operational and cost efficiencies of the Canadian-Link Service. We are satisfied with DTC's description of the rule change as an enhancement that does not otherwise affect the operation of the Canadian-Link Service as it was previously approved by the Commission. In addition, the corresponding changes made to DTC's risk management procedures and the clarifying amendments made to the terminology in Rule 30 should assure that DTC can offer U.S. Dollar settlement for the Canadian-Link Service without affecting DTC's ability to safeguard securities and funds which are in its custody or control or for which it is responsible.

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 Section 17A of the Act and the rules and regulations thereunder.⁵

⁴ Securities Exchange Act Release No. 52784 (November 16, 2005), 71 FR 70902 (November 23, 2005) (File No. SR-DTC-2005-08).

⁵ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-2006-15) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Florence E. Harmon
Deputy Secretary

⁶ 17 CFR 200.30-3(a)(12).