

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55365; File No. SR-DTC-2006-07)

February 27, 2007

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change Relating to the Wind-Down of a Participant

I. Introduction

On March 28, 2006, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) and on September 29, 2006, amended proposed rule change SR-DTC-2006-07 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).<sup>1</sup> Notice of the proposal was published in the Federal Register on December 20, 2006.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change as modified by Amendment No. 1.

II. Description

The proposed rule change would add a new Rule 32, Wind-Down of a Participant, to DTC’s Rules to address a situation where a participant notifies DTC that it intends to wind down its activities, and DTC determines in its discretion that it must take special action in order to protect itself and its participants.<sup>3</sup>

The proposed rule change would allow DTC to make a determination that a participant is a wind-down participant and would set forth the conditions DTC using its discretion may place on a wind-down participant and the actions DTC using its discretion may take with respect to a

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

<sup>2</sup> Securities Exchange Act Release No. 54927 (December 13, 2006), 71 FR 76397.

<sup>3</sup> Similar proposed rule changes have been filed by the Fixed Income Clearing Corporation [File No. SR-FICC-2006-05] and the National Securities Clearing Corporation [File No. SR-NSCC-2006-05].

wind-down participant to protect itself and its participants. Such actions may include restricting or modifying the wind-down participant's use of any or all of DTC's services and requiring the wind-down participant to post increased participants fund deposits. DTC will retain all of its other rights set forth in its rules and participant agreements, including the right to cease to act for the wind-down participant.

The rule is designed to ensure that DTC has the needed flexibility to appropriately manage the risks presented by an entity in crisis that remains a participant of DTC. This is particularly important to preserve orderly settlement in the marketplace and to minimize the risk of loss to DTC and its participants. The rule sets forth in a single rule DTC's rights and the actions it may take in such a situation. Currently, these rights and actions are either permitted elsewhere in DTC's rules or are permitted pursuant to DTC's emergency authority. By placing DTC's rights in a single rule, however, the proposed rule change should provide clarity and a clear legal basis for DTC's rights or actions taken with respect to a wind-down participant. DTC also believes that the rule is designed to minimize the need for rule waivers.

### III. Discussion

Section 17A(b)(3)(F) of the Act provides that the rules of a clearing agency should be designed to safeguard securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>4</sup> The sudden or unanticipated financial or operational difficulties of a participant or the termination of its trading activities may create uncertainty among industry participants about DTC's ability to meet its settlement obligations on time and concern about the risk to the assets of the clearing agency or of its participants. The proposed

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<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F).

rule change clarifies that DTC has discretionary power in a wind-down situation to take certain actions to assure the ongoing operations of itself and to protect the securities and funds of DTC and of its participants. By making clear in a single rule the authority DTC has under its rules to facilitate the orderly wind down of a participant's activities, the proposed rule change is designed to assure the safeguarding of securities or funds which are in DTC's control or for which it is responsible.<sup>5</sup>

#### 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.<sup>6</sup>

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<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>6</sup> 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-2006-07), as modified by Amendment No. 1, be, and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>7</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).