

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82663; File No. SR-DTC-2017-023)

February 8, 2018

Self-Regulatory Organizations; The Depository Trust Company; Order Approving
Proposed Rule Change to Restore the Timeframe for Processing Credit Post-Payable
Adjustments

On December 21, 2017, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2017-023, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on January 8, 2018.³ The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission approves the proposed rule change.

I. Description of the Proposed Rule Change

The proposed rule change would modify DTC’s Distributions Service Guide (“Guide”)⁴ to (i) increase the timeframe for accepting a request from an issuer or its agent (“Paying Agent”) for a post-payable adjustment (“PPA”) that results in a credit payment, and (ii) make technical changes to the Guide, as more fully described below.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 82433 (January 2, 2018), 83 FR 927 (January 8, 2017) (SR-DTC-2017-023) (“Notice”).

⁴ Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Distributions-Service-Guide-FINAL-January-2017.pdf>.

A. Current PPA Process

On a daily basis, DTC collects and allocates distributions on securities held by DTC.⁵ The distributions are commonly referred to as principle and income payments, and they include dividend, interest, principal, redemption, and maturity payments, as applicable.⁶ Occasionally, an error can occur with a principal or income payment due to an error on the part of the Paying Agent, trustee, issuer, or a change in the principle factor or rate.⁷ When an error occurs, Paying Agents can request that DTC issue a PPA. A PPA can result in a debit (“Debit PPA”) or credit (“Credit PPA”) to the affected DTC participant (“Participant”).⁸

Upon the receipt of a PPA, affected Participants would need to make adjustments to their affected customers’ accounts for any misapplied principal or income and any associated interest.⁹ In addition, affected Participants may need to process adjustments against any customer that traded the security after the initial payment had occurred.¹⁰

Currently, DTC does not accept a request for a PPA, regardless of whether it would be a Debit PPA or a Credit PPA, beyond 90 calendar days after the initial payment date.¹¹ If a Paying Agent wants to make a PPA beyond 90 days, the adjustment cannot be

⁵ Notice, 83 FR at 927.

⁶ Id.

⁷ Id.

⁸ Id.

⁹ Id.

¹⁰ Id.

¹¹ Id.

processed through DTC.¹² Instead, the Paying Agent must request from DTC a listing of all affected Participants and positions.¹³ Then, using that list, the Paying Agent must contact each affected Participant to make direct adjustments and/or payment arrangements outside of DTC.¹⁴

B. Proposed Timeline for Credit PPAs

DTC proposes to extend the 90-day cutoff for PPA Credits to one year.¹⁵ DTC states that the new timeline for Credit PPAs would allow Paying Agents more time to correct allocations to Participants efficiently through DTC, rather than requiring the Paying Agent to make the Credit PPAs bilaterally with each Participant, outside of DTC.¹⁶ DTC states that this efficiency would allow Participants, their customers, and end investors to receive their credits more quickly.¹⁷

The proposed rule change would not alter the timeline for Debit PPAs. DTC states that Debit PPAs create significant credit risk exposure for Participants, customers, and investors as more time passes.¹⁸ DTC states that Participants have difficulty recovering debited funds from their customers that may no longer have an account, may

¹² Id.

¹³ Id.

¹⁴ Id.

¹⁵ Id.

¹⁶ Id.

¹⁷ Id.

¹⁸ Id. at 927–28.

not have available funds, or may no longer service the end investor.¹⁹ Therefore, DTC would preserve the 90-day cutoff for Debit PPAs.

C. Proposed Technical Changes to the Guide

DTC also proposes some technical changes to the Guide. Specifically, DTC would modify the Guide to (i) remove an inaccurate statement that PPA adjustments appear on Participant statements – such adjustments do not appear on Participant statements; (ii) add the word “principal” to the list of payments that may be subject to a PPA – for consistency with the term “P&I;” and (iii) remove an incorrect reference to CMO/ABS securities.²⁰

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act²¹ 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. The Commission finds that this proposal is consistent with Act, specifically Section 17A(b)(3)(F) of the Act.²²

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.²³ By extending the cutoff period from 90 days to one year for the

¹⁹ Id. at 928.

²⁰ Id.

²¹ 15 U.S.C. 78s(b)(2)(C).

²² 15 U.S.C. 78q-1(b)(3)(F).

²³ Id.

processing of Credit PPAs through DTC, DTC would be providing centralized processing for Credit PPAs for a longer period. Enabling Paying Agents to avail themselves of such central processing for a longer period would help the Paying Agents avoid the manual process of bilaterally processing the Credit PPAs outside of DTC after 90 days. In doing so, the proposal would enable Paying Agents to correct errors in Credit PPAs more efficiently and effectively over a longer period. Therefore, the Commission finds the proposed extension from 90 days to one year for Credit PPAs to be processed by DTC would help promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.²⁴

The Commission also finds that DTC's technical changes to the Guide would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.²⁵ Clarifying terms and descriptions in the Guide would help make the Guide more accurate and clear. Maintaining an accurate and clear Guide would enable Participants and other stakeholders to better understand their respective rights and obligations. Accordingly, the Commission finds that the proposed change to make technical changes to the Guide would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of Section 17A(b)(3)(F) of the Act.²⁶

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent

²⁴ Id.

²⁵ Id.

²⁶ Id.

with the requirements of the Act, in particular the requirements of Section 17A of the Act²⁷ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR-DTC-2017-023 be, and hereby is, APPROVED.²⁸

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

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Assistant Secretary

²⁷ 15 U.S.C. 78q-1.

²⁸ In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²⁹ 17 CFR 200.30-3(a)(12).