

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87526; File No. SR-DTC-2019-009)

November 13, 2019

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Amend the Redemptions Guide Relating to the Call Lottery Process for Partial Redemptions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 31, 2019, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change of DTC³ consists of amendments to the Procedures⁴ set forth in the DTC Corporate Actions Redemptions Service Guide⁵ (“Redemptions Guide”) relating to DTC’s call lottery process for the processing of partial redemptions (“Partial

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 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.

⁴ Pursuant to the Rules, the term “Procedures” means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, id.

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

Calls”), specifically with respect to allocations made for odd lot positions in a called Security held by a Participant, as described below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency 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. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change consists of amendments to the Procedures set forth in the Redemptions Guide relating to DTC’s lottery process for the processing of Partial Calls, specifically with respect to allocations made for odd lot positions in a called Security held by a Participant, as described below.

Background

Partial Calls and the Call Lottery

An issuer of a Security may be allowed under the terms of the Security to call a portion of the par value of the Security outstanding for redemption, i.e., a Partial Call.⁶ In such a 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.

⁶ See id. at 19.

When an issuer initiates a Partial Call, DTC requires the trustee for the Security 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 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

From time to time, a Participant may hold 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 such an incremental value. E.g., if the incremental value for the Security is \$5,000 par value, then any amount held by a Participant that has a par value that is not

⁷ See id.

⁸ DTC's redemption 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.

¹⁰ See id.

¹¹ See id. at 21.

a multiple of \$5,000, such as a position with a par value of \$5,001, would be an odd lot;¹² a position of \$105,000 would not be an odd lot because \$105,000 is a multiple of \$5,000.

Running the lottery with the odd lot position intact could result in another Participant being driven into an odd lot position, because when the lottery is applied against existing odd lot positions it may result in the creation of new positions for other Participants that are not valued in a multiple of the established incremental value. Odd lot positions that are created during the lottery process may have adverse repercussions on Participants to which the odd lot positions are allocated and their clients, because odd lot securities are more difficult to trade due to the terms of the issue requiring trades to be made only in multiples of the incremental value.

Pursuant to the proposed rule change, DTC would implement a revision of the call lottery process to prevent creating new odd lot positions for CUSIPs with minimum increments of \$5,000 principal amount or less. For purposes of running the lottery, Participants with odd lot positions would have their positions adjusted down to nearest value that is divisible by the minimum incremental value. However, the Participant would continue to hold the Securities reduced from its position for this purpose in its Account. This means that the Participant with the initial odd lot would continue to

¹² As an example, an odd lot position may be created as a result of a beneficial holder's account at a Participant being split into two accounts as a result of an event such as a 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 a Participant's DTC account.

maintain an odd lot position after the lottery is run, but no new odd lot positions would be created.

Following is an example of how the proposed change would govern the determination of the portion of a Participant's position that would be subject to allocation during a Partial Call on the affected Security:

Example (incremental value of \$5,000):

| Participant | Position | Adjusted Position |
|-------------|----------|-------------------------|
| 1 | 105,000 | 105,000 (no adjustment) |
| 2 | 151,000 | 150,000 |
| 3 | 194,000 | 190,000 |

Proposed Rule Change

Pursuant to the proposed rule change, DTC would amend the Redemptions Guide to insert the following text into the section titled "Partial Calls":

Partial Calls When Participant Positions Are Not Divisible by the Issue's Incremental Value

From time to time, Participants may hold positions that are not within the stated increments of the security (odd lot). For issues where the incremental value is \$5,000 or less, each Participant that has position that is not divisible by the incremental value will have their lottery position rounded down to the nearest value that is divisible by the minimum incremental value. These rounded positions will be indicated as adjusted positions within the entitlement screens and will be used as the position that will be included in performing the lottery. No adjustments will be made for any securities that have minimal incremental values greater than \$5,000.

Example (incremental value of 5,000):

| Participant | Position | Adjusted Position |
|-------------|----------|-------------------------|
| 1 | 105,000 | 105,000 (no adjustment) |
| 2 | 151,000 | 150,000 |
| 3 | 194,000 | 190,000 |

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

Implementation Timeframe

The proposed rule change would be implemented upon its approval by the Commission.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act¹³ requires that the rules of the clearing agency be designed, *inter alia*, to promote the prompt and accurate clearance and settlement of securities transactions. As described above, odd lot positions are more difficult for Participants and their clients to trade. The proposed rule change would prevent the creation of new odd lot positions during the lottery process for issues where the incremental value is \$5,000 or less. Therefore, DTC believes that the proposed rule change is consistent with this provision of the Act, because by amending the Redemptions Guide to exclude odd lots from Partial Call lottery processing as described above, the proposed rule change would promote the prompt and accurate clearance and

¹³ 15 U.S.C. 78q-1(b)(3)(F).

settlement of securities transactions by preventing the creation of new odd lots during the process, and therefore facilitate the allocation of positions that are more amenable to trading for transactions that are processed and settled through DTC's system.

(B) Clearing Agency's Statement on Burden on Competition

DTC believes that the proposed rule change could impose a burden on competition. By excluding from a call lottery the portion of a Participant's position in a Security that is not within the stated increments of the Security as described above, the proposed rule change would result in those Participants continuing to hold the odd lot portion of their position regardless of the outcome of the lottery results. In addition, having fewer Securities available to participate in the call lottery from those Participants with the "odd lot" portion of their respective positions excluded may result in other Participants having a larger portion of their positions in the Security redeemed in connection with the Partial Call. This outcome may present a burden or benefit to a Participant versus others with respect to a given redemption resulting from a Partial Call, depending on whether the terms of a Partial Call would be favorable to the Participant.

DTC believes that any burden on competition presented by the proposal would not be significant because only the "odd lot" portion of a Participant's holdings for Securities denominated in increments of \$5,000 or less would be excluded from the Partial Call, thus creating a cap¹⁴ on the number of a Participant's Securities that could be

¹⁴ An odd lot can only be an amount less than the incremental value of the Security. Thus, if the incremental value of a Security is \$5,000, then the amount of a Participant's total position excluded from a call lottery on that Security would be capped at \$4,999.

excluded from a call lottery, and thus limiting the benefit or burden that a Participant whose Securities are called would realize versus other Participants.

DTC believes that any burden on competition that may be imposed by the proposed rule changes, as described above, would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act,¹⁵ because preventing the creation of new odd lots resulting from the allocation for a call lottery on a Security affected by the proposal would instead result in positions that (i) avoid the adverse repercussions, with respect to tradability of the Security, on a Participant who would otherwise have been allocated a new odd lot position by the inclusion of one or more odd lot positions of other Participants in the call lottery, as described above, and (ii) are available in an incremental value that can be used to satisfy Delivery obligations with respect to open trading positions in the Security, and would therefore promote the prompt and accurate clearance and settlement of securities transactions in the marketplace for an affected Security.

DTC believes the proposed rule change may promote competition, because eliminating the creation of new odd lot positions for called Securities where the incremental value is \$5,000 or less would prevent circumstances where additional Participants, beyond any Participants that already hold odd lot positions prior to the running of the lottery, are allocated positions in odd lot amounts, which, as described above, would be more difficult for the Participants and their clients to trade than positions held in multiples of the incremental value.

¹⁵ 15 U.S.C. 78q-1(b)(3)(I).

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

DTC has not received or solicited any written comments relating to this proposal.

DTC will notify the Commission of any written comments received by DTC.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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 or disapprove 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 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. Please include File Number SR-DTC-2019-009 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-DTC-2019-009. 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 website (<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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make

available publicly. All submissions should refer to File Number SR-DTC-2019-009 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Jill M. Peterson
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).