

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-101132; File No. SR-DTC-2024-010)

September 23, 2024

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Decommission the ID Net Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 12, 2024, 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 is to (1) amend the DTC Settlement Service Guide (“Settlement Guide”)<sup>3</sup> to retire the ID Net Service (“ID Net”), a joint service offering of DTC and National Securities Clearing Corporation (“NSCC”), a DTC affiliate,<sup>4</sup> and,

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Available at [www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf). The Settlement Guide is a Procedure of DTC. Pursuant to the DTC Rules, the term “Procedures” means the Procedures, service guides, and regulations of DTC adopted pursuant to DTC Rule 27, as amended from time to time. See DTC Rule 1, Section 1, infra note 6. They are binding on DTC and each Participant in the same manner that they are bound by the DTC Rules.

<sup>4</sup> NSCC also filed a proposed rule change with the Commission in connection with the retirement of ID Net. See NSCC filing SR-NSCC-2024-008.

consequently, (2) remove from the Guide to the DTC Fee Schedule (“Fee Guide”)<sup>5</sup> the related fee (“ID Net Fee”) associated with ID Net, as described in greater detail below.<sup>6</sup>

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 purpose of this proposed rule change is to (1) amend the Settlement Guide to retire the ID Net, a joint service offering of DTC and NSCC and, consequently, (2) remove from the Fee Guide the ID Net Fee associated with ID Net.

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<sup>5</sup> Available at [www.dtcc.com/~media/Files/Downloads/legal/fee-guides/DTC-Fee-Schedule.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/fee-guides/DTC-Fee-Schedule.pdf).

<sup>6</sup> Each capitalized term not otherwise defined herein has its respective meaning as set forth the Rules, By-Laws and Organization Certificate of DTC (the “Rules”), available at [www.dtcc.com/legal/rules-and-procedures](http://www.dtcc.com/legal/rules-and-procedures).

## Background

DTC may accept affirmed institutional transactions (“Affirmed Transactions”)<sup>7</sup> from a matching utility (“Matching Utility”).<sup>8</sup> An Affirmed Transaction submitted to DTC is processed on a trade-for-trade basis at DTC, unless it is designated for ID Net processing by the Matching Utility and meets certain eligibility requirements, as described below.

In order for an Affirmed Transaction to be eligible for processing in ID Net, (i) both counterparties to the Affirmed Transaction must be a Member of NSCC and a Participant of DTC, or a bank that is a Participant of DTC, that has subscribed to ID Net; and (ii) the transaction must be (a) in a security eligible for processing through NSCC’s

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<sup>7</sup> An institutional transaction is one between a broker/dealer and its institutional customer. Such institutional customers are not Participants. Therefore, the counterparties on an Affirmed Transaction submitted by a Matching Utility to DTC are a (i) DTC Participant, acting as clearing broker to the Affirmed Transaction and (ii) DTC Participant bank, acting as the custodian for an institutional customer.

<sup>8</sup> The Matching Utility must be (i) a clearing agency registered with the Commission (ii) an entity that has obtained an exemption from such registration from the Commission, or (iii) a “qualified vendor” for trade confirmation/affirmation services as defined by the rules of a self-regulatory organization. See Settlement Guide, *supra* note 3 at 38. DTCC ITP Matching (US) LLC (“ITP”), a DTC affiliate, is currently the only Matching Utility that submits Affirmed Transactions to DTC.

Continuous Net Settlement (“CNS”) system<sup>9</sup> and (b) affirmed within established timeframes set forth in the Settlement Guide.<sup>10</sup>

If an Affirmed Transaction is designated for ID Net by the Matching Utility and meets the eligibility criteria described above, then DTC will direct the transaction to ID Net, which facilitates the netting of a broker/dealer’s side of an Affirmed Transaction with that broker/dealer’s CNS activity via omnibus accounts that are maintained by NSCC at DTC and designated for ID Net activity. If a bank is a counterparty to the ID Net-eligible Affirmed Transaction, then it will either receive or deliver the subject shares versus payment, on a trade-for-trade basis, via the ID Net omnibus accounts.

While ID Net was designed to allow broker/dealers to realize the benefit of netting for Affirmed Transactions by allowing the broker/dealer to net its ID Net-eligible Affirmed Transactions with its transactions in CNS, banks using ID Net settle ID Net transactions on a trade-for-trade basis as they would for other Affirmed Transactions, as

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<sup>9</sup> CNS is NSCC’s system for accounting and settling CNS-eligible securities. See NSCC Rule 11 (describing the CNS System) and Procedure VII (describing the CNS Accounting Operation), available at [www.dtcc.com/-/media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/rules/nscc_rules.pdf). To be CNS-eligible, a security must be eligible for book-entry transfer on the books of DTC and must be capable of being processed in the CNS system. All eligible compared and recorded transactions for a particular settlement date are netted by issue into one net long (buy), net short (sell) or flat position for each NSCC Member. As a continuous net system, those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date. NSCC becomes the contra-party for settlement purposes, assuming the obligation of its Members that are receiving securities to receive and pay for those securities, and the obligation of Members that are delivering securities to make the delivery. CNS netting thus reduces the costs associated with securities transfers by reducing the number of securities movements required to settle transactions.

<sup>10</sup> See Settlement Guide, supra note 3 at 40-41.

described above. In this regard, ID Net's main benefit is to streamline clearance and settlement of ID Net-eligible Affirmed Transactions for broker/dealers.

### **Proposed Changes**

NSCC and DTC continually evaluate the efficiency and effectiveness of the services they each provide. As part of these evaluations, and in furtherance of their ongoing modernization efforts, both DTC and NSCC are seeking to streamline and simplify their services and processes, including through the elimination of underutilized services. DTC and NSCC have identified ID Net as an underused service that may be eliminated as part of their modernization efforts. They each propose to retire ID Net due to (i) limited uptake and usage of the service since its adoption<sup>11</sup> and (ii) complexity of the processing logic required to maintain the service,<sup>12</sup> especially given its limited usage.

DTC believes that the retirement of ID Net would have minimal impact on its Participants because (1) only 13 broker/dealers and 20 banks subscribe to ID Net, with not all of them even using the service, and (2) Affirmed Transactions can simply settle trade-for-trade, directly between the counterparties, if not eligible for ID Net, like they do today.

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<sup>11</sup> ID Net-related transactions currently comprise less than 1 percent of all activity processed by CNS. DTC believes that ID Net usage has been limited since its implementation in 2008 because, in part, the service needs both parties to an ID Net transaction to be subscribers of ID Net, as described above, which is not always the case.

<sup>12</sup> This complexity includes (i) special eligibility checks versus the ID Net eligibility criteria described above, and (ii) leveraging of the above-mentioned omnibus accounts to simultaneously allow (a) a bank to process ID Net-eligible transactions on a trade-for-trade basis and (b) the broker/dealer side of an ID Net-eligible transaction to settle via CNS.

To implement the proposed change, DTC would remove all provisions relating to ID Net from the Settlement Guide, including (i) the entire text of the section titled “ID Net,” which contains the DTC Procedures for processing of ID Net transactions,<sup>13</sup> and (ii) a reference to ID Net relating to messaging in the section titled “Affirmed Transactions.”<sup>14</sup>

DTC has performed direct outreach to Participants that use ID Net and has also announced its plans to decommission ID Net through Important Notice. There have been no material objections or concerns raised by Participants.

In addition, DTC would delete the associated ID Net Fee of 2 cents per transaction from the Fee Guide<sup>15</sup> because the fee would be obsolete. Instead, such transactions would, by default, be charged the standard fee charged for Affirmed Transactions of 4 cents per transaction.<sup>16</sup>

#### Implementation Timeframe

Subject to approval by the Commission, DTC and NSCC would implement the proposed rule change using a phased approach. First, DTC Participants and NSCC Members have been informed that they may be unsubscribed from ID Net voluntarily at any time prior to termination of the service on November 15, 2024. Second, upon approval of the proposed rule change by the Commission prior to November 15, 2024,

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<sup>13</sup> See Settlement Guide, supra note 3 at 40-46.

<sup>14</sup> Id. at 38.

<sup>15</sup> See Fee Guide, supra note 5 at 18.

<sup>16</sup> Id.

any DTC Participants and NSCC Members that have been inactive in the service for at least the last twelve (12) months will be offboarded from the service. Finally, NSCC and DTC will continue to fully support ID Net processing for any remaining active users until November 15, 2024, at which time the service will be fully retired. NSCC and DTC will work with their respective Members and Participants to support all required offboarding activities.

## 2. Statutory Basis

DTC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Section 17A(b)(3)(F) of the Act<sup>17</sup> requires that the rules of a clearing agency be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions. DTC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act for the reasons stated below.

The proposed rule change would amend the Settlement Guide to decommission ID Net, and remove the ID Net Fee from the Fee Guide, because the service is hardly used yet challenging to maintain. As discussed above, DTC believes that the retirement of ID Net would have minimal impact on its Participants given the limited usage of the service. Furthermore, Affirmed Transactions that would have otherwise been directed to ID Net can simply settle trade-for-trade, directly between the counterparties, like most other Affirmed Transactions do today. As a result, these Affirmed Transactions would continue to settle promptly and accurately, as other Affirmed Transactions do, outside of ID Net. For these reasons, DTC believes its Rules would continue to promote the prompt

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<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

and accurate clearance and settlement of securities transactions in accordance with Section 17A(b)(3)(F) of the Act.<sup>18</sup>

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

Section 17A(b)(3)(I) of the Act<sup>19</sup> requires that the rules of the clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the Act.

DTC does not believe the proposed rule change to decommission ID Net would present a burden on competition. While the few broker/dealer Participants using the service may see a reduced netting benefit, since Affirmed Transactions will no longer be processed through NSCC's CNS, DTC does not believe such reduction would rise to the level of a burden given the limited usage of the service. Meanwhile, banks using ID Net would continue to process affected Affirmed Transactions trade-for-trade, albeit directly with their counterparties rather than the ID Net omnibus accounts, described above.

Furthermore, DTC does not believe the removal of the ID Net Fee, which would become obsolete with the decommissioning ID Net, would impose a burden on competition. Upon the decommissioning of ID Net, Affirmed Transactions that were previously processed via ID Net will now be subject to the existing standard charge for Affirmed Transactions of 4 cents<sup>20</sup> per transaction instead of the ID Net Fee of 2 cents.<sup>21</sup>

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<sup>18</sup> Id.

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>20</sup> See Fee Guide, supra note 5 at 18.

<sup>21</sup> Id.

Notwithstanding the increased fee, DTC does believe the application of the standard fee applied to Affirmed Transactions will be significant or burdensome for Participants because of the limited amount of activity that was processed through ID Net.

(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. If any written comments are received by DTC, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at [www.sec.gov/regulatory-actions/how-to-submit-comments](http://www.sec.gov/regulatory-actions/how-to-submit-comments). General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

DTC reserves the right not to respond to any comments received.

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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-DTC-2024-010 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-2024-010. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 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 ([www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings)). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-DTC-2024-010 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

**Vanessa A. Countryman,**

*Secretary.*

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<sup>22</sup> 17 CFR 200.30-3(a)(12).