

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50029; File No. SR-DTC-2003-10)

July 15, 2004

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of Proposed Rule Change Relating to a New Messaging Service for Stock Loan Recalls

On July 8, 2003, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change File No. SR-DTC-2003-10 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ On July 21, 2003, DTC filed an amendment to the proposed rule change.² Notice of the proposed rule change was published in the Federal Register on June 1, 2004.³ No comment letters were received. For the reasons discussed below, the Commission is now granting approval of the proposed rule change.

I. Description

The purpose of the rule change is to allow DTC to activate its Universal Hub for Stock Loan Recalls (“Universal Hub”). Universal Hub is a new messaging service that will provide participants with an efficient means for transmitting the notification and acknowledgement and maintaining such information related to stock loan recalls.

Currently, industry participants utilize faxes and phone calls to recall securities on loan. Processing stock loan recalls is generally paper intensive, which increases the risk of transmission errors and delayed responses. The lack of formal, automated mechanisms for

¹ 15 U.S.C. 78s(b)(1).

² The amendment changed the proposed rule change from being filed under Section 19(b)(3)(A) for immediate effectiveness to being filed under Section 19(b)(2) for notice and comment.

³ Securities Exchange Act Release No. 49764 (May 25, 2004), 69 FR 30969.

lenders and borrowers to communicate notifications and acknowledgements of loan recalls is extremely inefficient.

To remedy these issues and to support the Securities Industry Association's Straight-Through Processing Securities Lending Subcommittee's goals, DTC has developed a universal messaging hub that, among other things, will automate the labor-intensive stock loan recall process. The Universal Hub will provide a central point of access for DTC participants engaging in stock loan recall transactions where participants can send and receive recall notices, acknowledgements, cancellations, buy-in execution details, and corporate action notices. DTC participants utilizing either vendor-supplied Automated Stock Loan Recall Messaging Systems ("ARMS") or their own stock loan recall capability will be able to connect directly to the Universal Hub. By providing a central point of access to all parties, the Universal Hub will provide interoperability between various ARMS users and DTC participants and will permit ARMS vendors and DTC participants to avoid the costs and inefficiencies of building multiple bilateral links.

The Universal Hub's message formats will be based on ISO 15022 standards and will be supported on MQ Series and DTC's standard file transfer capabilities. The Universal Hub will create an acknowledgement/receipt record for each message processed to notify the sender that the Universal Hub has received the message and that the message was forwarded to the receiver. In addition, the Universal Hub will create a receipt record for the sender indicating that the counterparty to the stock loan recall retrieved the message from the Universal Hub. Each message will be assigned an internal control number for audit trail purposes. If the Universal Hub cannot deliver a message, it will reject the message back to the sender for resolution. The

Universal Hub will only edit the header of the message to ensure successful delivery of the message. The Universal Hub will not edit the data in the actual stock loan recall message. Participants remain responsible for the details provided in their recall messages.

II. Discussion

Section 17A(b)(3)(F)⁴ of the Act requires that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for prompt and accurate clearance and settlement of securities transactions. Implementing the Universal Hub will enable DTC to further automate the processing of stock loan recalls and will further the industry's efforts to achieve straight-through processing. As a result, DTC will be able to facilitate the prompt and accurate processing of securities transactions. As such, the proposed rule change is consistent with DTC's statutory obligation to remove impediments to and perfect the mechanism of a national system for prompt and accurate clearance and settlement of securities transactions.

⁴ 15 U.S.C. 78q-1(b)(3)(F).

III. 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.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁵ that the proposed rule change (File No. SR-DTC-2003-10) be and hereby is approved.

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

Margaret H. McFarland
Deputy Secretary

⁵ 15 U.S.C. 78s(b)(2).

⁶ 17 CFR 200.30-3(a)(12).