SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50944; File No. SR-DTC-2004-10)

December 29, 2004

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change to Implement Phase II of the IMS Service

I. Introduction

On September 10, 2004, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change File No. SR-DTC-2004-10 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").[1] Notice of the proposed rule change was published in the Federal Register on November 29, 2004.[2] No comment letters were received. For the reasons discussed below, the Commission is now granting approval of the proposed rule change.

II. Description

DTC is seeking to implement Phase II of its Inventory Management System ("IMS").[3] Currently, IMS allows DTC participants to:

(1) stage their institutional deliveries received from a matching utility system (such as Omgeo's TradeSuite system) for automated settlement;

(2) establish a predefined profile to allow greater control over the timing and order of their deliveries by transaction type and asset class;

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1 15 U.S.C. 78s(b)(1).

2 Securities Exchange Act Release No. 50690 (November 18, 2004), 69 FR 69433.

3 The Commission approved a proposed rule change implementing Phase I of the IMS. Securities Exchange Act Release No. 48176 (July 14, 2003), 68 FR 43244 [File No. SR-DTC-2002-19].

(3) reintroduce drop deliveries for night deliver orders ("NDOs"), broker-to-broker balance orders, and all other participant deliveries; and

(4) warehouse deliveries with future settlement dates through the NDO function.

Today, deliveries from the National Securities Clearing Corporation's ("NSCC") Continuous Net Settlement ("CNS") system are automatically processed unless a participant otherwise instructs NSCC through an exemption. Other deliveries such as NDOs, along with authorized institutional and CNS deliveries, are processed by DTC at predefined times. All of these transactions may recycle (i.e., pend) in the event of a position deficiency or a problem with system controls. These recycles are processed based on one of two recycle options: a "first in first out" process or a DTC preestablished recycle queue.

DTC is now seeking to implement Phase II to allow participants to customize the order in which their authorized night cycle deliveries, such as CNS and institutional deliveries, are submitted for processing and to provide participants with the ability to create profiles that instruct DTC's processing system how to attempt to complete their recycling deliveries that are recycling for insufficient position.

DTC currently recycles deliveries for insufficient position in a prescribed order based on transaction type and settlement value. To address their unique delivery requirements for recycling deliveries, some participants withhold their deliveries to DTC. For other participants, deliveries may not complete in their desired order.

IMS Phase II permits a participant to prepopulate a profile that "customizes" its position recycle order for settlement related transactions. Transactions will be processed in the prescribed order if there are sufficient shares. If there are insufficient shares to complete a high

priority transaction, then transactions with a lower priority but with sufficient shares will be processed subject to other controls. This service will be optional, and the current recycle order will remain
in effect unless profile changes are made.[4]

Participants will be able to promote their recycling transactions through 15022 messages or a new PBS screen in IMS if they have update capability. Participants will be able to promote transactions to the top of the recycle queue. Once a transaction is promoted, a participant will be able to promote another transaction higher or lower than the previously promoted transaction.

In order to recoup the costs of this development, participants will be billed $.045 for each delivery that is promoted. Participants will be charged $0.06 for each delivery that is "customized" by these profiles, including deliveries that are submitted using the current active to passive functionality. If a delivery is submitted and recycles based upon profile selection, the participant will not be double charged for the delivery.[5]

Participants will not be required to make systemic changes and will be able to continue processing their deliveries as they do today. All IMS features will be optional, and participants will be able to migrate to any or all features they deem valuable.

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4 For example, unless a participant customizes its position recycle order, CNS will continue to have the highest priority, followed by value releases, etc.

5 It will cost $0.06 to have a delivery submitted and recycled by IMS based upon the profile created.

The new enhancements to the IMS service will extend and will improve participants' ability to control their deliveries and will permit users to determine how their deliveries should recycle in the system based on participant-defined profiles.

III. Discussion

Section 17A(b)(3)(F) of the Act requires among other things that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.[6] The Commission finds that DTC's proposed rule change is consistent with this requirement because the Phase II enhancements to the IMS service will extend a participant's ability to control its deliveries and will permit participants to determine how their deliveries recycle. This should increase efficiency in processing member transactions.

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.

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6 15 U.S.C. 78q-1(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[7] that the proposed rule change (File No. SR-DTC-2004-10) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[8]

Margaret H. McFarland
Deputy Secretary

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7 15 U.S.C. 78s(b)(2).

8 17 CFR 200.30-3(a)(12).