

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52450; File No. SR-DTC-2005-07)

September 15, 2005

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Expand DTC's Inventory Management System

I. Introduction

On July 8, 2005, the Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") and on July 8, 2005, amended¹ proposed rule change SR-DTC-2005-07 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").² Notice of the proposal was published in the Federal Register on August 1, 2005.³ No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

DTC is expanding its Inventory Management System ("IMS") to offer additional customized transaction recycling capabilities and to provide users with an enhanced approval mechanism in order to give users greater internal control over deliveries that they submit to DTC.

Currently, a participant using IMS can prepopulate its profile to customize the position recycle order for its night cycle deliveries. These "high priority" transactions are processed in the prescribed order if the participant has sufficient shares in its account. If there are insufficient

¹ The amendment corrected a typographical error in the original filing.

² 15 U.S.C. 78s(b)(1).

³ Securities Exchange Act Release No. 52123 (July 26, 2005), 70 FR 44132.

shares to complete these high priority transactions, then DTC attempts to complete lower prioritized transactions that can be completed with the shares the participant has available.

The rule change: (i) increases participant control over the processing order by adding two new recycle profiles; (ii) expands the recycle profiles to include Initial Public Offering (“IPO”) transactions; and (iii) allows a participant’s input to be subjected to secondary authorization through a new transaction type in IMS.

The new recycle profiles allow participants to further customize the processing of their deliveries by either: (i) electing to have the deliveries processed in strict profile order or (ii) enabling the participant to hold all or a specific set of deliveries in a separate profile until they are ready to release those transactions for processing. For each delivery that is customized and recycled based upon profile selection, a participant will be charged \$0.06 in addition to the applicable delivery fee.

Currently, participants only can route their night delivery orders to IMS for authorization. The rule change allows participants also to submit their manual or automated day delivery orders for authorization based on predetermined profiles. A user can create a profile by asset class and within asset class by input source (e.g., only deliveries submitted by DTC’s Participant Browser Service). The user can determine, based on input source, which delivery types (all valued, all free, only under/over valued deliveries) should be routed for authorization. For these deliveries, participants will be charged the current authorization fee of \$0.006 each in addition to the applicable delivery fee.

Participants are not required to make any systemic changes and may continue to process their deliveries as they do today. IMS recycle profiles are optional, and users that do not elect to

prioritize their deliveries through IMS continue to be subjected to the existing default recycle profile.

III. Discussion

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to provide for the prompt and accurate clearance and settlement of securities.⁴ The Commission finds that DTC's proposed rule change is consistent with this requirement because it will allow participants to have all of their deliveries residing at DTC throughout the day and will maximize their priority deliveries and associated settlement credits. As such, the proposed rule change should promote the prompt and accurate clearance and settlement of securities transactions by increasing efficiency of processing participants' 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.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁵ that the proposed rule change (File No. SR-DTC-2005-07) be and hereby is approved.

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

Jonathan G. Katz
Secretary

⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵ 15 U.S.C. 78s(b)(2).

⁶ 17 CFR 200.30-3(a)(12).

