SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68548; File No. SR-DTC-2012-10)

December 28, 2012

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Reduce Liquidity Risk Relating to Its Processing of Maturity and Income Presentments and Issuances of Money Market Instruments

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 December 17, 2012, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I, II and III below, which Items have been prepared primarily by DTC. 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

DTC is proposing to change the current Largest Provisional Net Credit ("LPNC") risk management control in order to increase withholding from one to two largest provisional credits (on an acronym[3] basis). DTC is also proposing to modify its Rules as they relate to the Issuing/Paying Agent's ("IPA's") refusal to pay process. DTC is proposing not to permit reversal of a transaction when issuances of Money Market Instruments ("MMIs") in an acronym exceed, in dollar value, the maturity or income presentments ("Maturity Obligations") of MMIs in the same acronym on the same day. As a result, at the point in time when issuances of MMIs

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

2 17 CFR 240.19b-4.

3 DTC employs a four-character acronym to designate an issuer's Money Market Instrument program. An issuer can have multiple acronyms. The Issuing/Paying Agent's bank uses the acronym(s) when submitting an instruction for a given issuer's Money Market Instrument securities.

in an acronym exceed, in dollar value, the Maturity Obligations of the MMIs in the same acronym on that day, DTC will remove the LPNC control with respect to the affected acronym.

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

In its filing with the Commission, DTC 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. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[4]

(A) Self-Regulatory Organization's Statement of Purpose of, and Statutory Basis for, the Proposed Rule Change

MMI presentment processing is initiated automatically by DTC each morning for MMIs maturing that day. The automatic process electronically sweeps all maturing positions of MMI CUSIPs from DTC Participant accounts and creates the Maturity Obligations. The matured MMIs are, subject to DTC Rules, delivered to the applicable IPA, a DTC Participant, and DTC debits the IPA's account for the amount of the Maturity Obligations. In accordance with DTC Rules, payment will be due from the IPA for net settlement to the extent, if any, that the IPA has a net debit balance in its settlement account at end-of-day.

Without regard to DTC net settlement, MMI issuers and IPAs commonly view the primary source of funding of payments for Maturity Obligations of MMIs as flowing from new issuances of MMIs in the same acronym by that issuer on that day. In a situation where those new issuances exceed the Maturity Obligations, the issuer would have no net funds payment due to the IPA on that day. However, because Maturity Obligations of MMIs are processed

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[4] The Commission has modified the text of the summaries prepared by DTC.

automatically at DTC, IPAs currently may nevertheless refuse to pay for all of an issuer's maturities. An IPA that refuses payment on an MMI must communicate its intention to DTC using the DTC Participant Terminal/Browser Service ("PTS/PBS") MMRP function. This communication is referred to as an Issuer Failure/Refusal to Pay ("RTP") and it allows the Paying Agent to enter a refusal to pay instruction for a particular issuer acronym up to 3:00 p.m. Eastern Time ("ET") on the date of the affected maturity or income presentment. Such an instruction will cause DTC, pursuant to its Rules, to reverse all transactions related to any new issuances in that issuer's acronym, including the Maturity Obligations, posing a potential for systemic risk since the reversals may override DTC's risk management controls (e.g., collateral monitor[5] and net debit cap[6]).

To mitigate the risks associated with an RTP, DTC employs the LPNC risk management control. On each processing day, DTC withholds intraday credit from each MMI Participant for the largest credit with respect to an issuer's acronym, for purposes of calculating the Participant's net settlement balance and collateral monitor. As such, this single largest credit is provisional and is not included in the calculation of the Participant's collateral monitor or in the

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5 DTC tracks collateral in a Participant's account through the Collateral Monitor ("CM"). At all times, the CM reflects the amount by which the collateral value in the account exceeds the net debit balance in the account. When processing a transaction, DTC verifies that the CM of each of the deliverer and receiver will not become negative when the transaction is processed. If the transaction would cause either party to have a negative CM, the transaction will recycle until the deficient account has sufficient collateral to proceed or until the applicable cutoff occurs.

6 The net debit cap control is designed so that DTC may complete settlement, even if a Participant fails to settle. Before completing a transaction in which a Participant is the receiver, DTC calculates the effect the transaction would have on such Participant's account, and determines whether any resulting net debit balance would exceed the Participant's net debit cap. Any transaction that would cause the net debit balance to exceed the net debit cap is placed on a pending (recycling) queue until the net debit cap will not be exceeded by processing the transaction.

settlement balance measured against its net debit cap. The LPNC control protects DTC against (i) either the single largest issuer failure on a business day, or (ii) multiple failures on a business day that, taken together, do not exceed the largest provisional net credit.

Maturity payment procedures were designed to limit credit, liquidity, and operational risk for DTC and Participants in the MMI program. In an effort to further mitigate these risks, DTC is proposing the following changes to current processing associated with (1) the LPNC control and (2) limiting intraday MMI reversals under specified conditions:

1. <u>Increase Withholding from One to Two LPNCs</u>

DTC is proposing to change the current LPNC risk management control in order to increase withholding from one to two largest provisional credits (on an acronym basis). DTC believes this will provide increased risk protection in the event of transaction reversals due to multiple issuer defaults or a single issuer default with two or more MMI programs.

DTC has conducted a simulation analysis to measure the impact to IPAs and custodians/dealers of an increase in LPNC controls from one to two on settlement blockage[7] intraday during peak processing periods. DTC analyzed the blockage level for both the IPAs and custodians/dealers as separate segments since each react to the additional blockage in different ways. DTC believes the results of the simulation analysis indicated that there will be no material change in transaction blockage.

2. <u>Eliminate Intraday Reversals When MMI Issuances Exceed Maturity Obligations</u>

DTC is also proposing to modify its Rules as they relate to the refusal to pay process. As planned, DTC will not permit reversal of a transaction when issuances of MMIs in an acronym

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7 Settlement blockage refers to transactions that cannot be completed due to a receiver's net debit cap or collateral monitor controls.

exceed, in dollar value, the Maturity Obligations of MMIs in the same acronym on the same day. In such instances, DTC will not permit reversal of the transactions because the IPA would have no reason to exercise the refusal to pay for that acronym on that settlement day. As a result, at the point in time when issuances of MMIs in an acronym exceed, in dollar value, the Maturity Obligations of the MMIs in the same acronym on that day, DTC will remove the LPNC control with respect to the affected acronym.

DTC believes the proposed changes will provide additional risk protection to DTC and the financial system as a whole. DTC has discussed this proposal with various industry groups, including the Participants that transact in MMIs, and DTC received no objections to the proposal. The Participants understand that the elimination of intraday reversals when issuances exceed Maturity Obligations will result in no material change in transaction blockage.

DTC believes the proposed changes should mitigate risk associated with MMI transaction reversals due to an IPA refusal to pay instruction. Additionally, DTC believes the proposed changes should promote settlement finality by precluding reversals for those issuances. DTC believes the proposed rule change is consistent with the requirements of the Act, specifically Section 17A(b)(3)(F),[8] and the rules and regulations thereunder because the proposed changes should facilitate the prompt and accurate clearance and settlement of securities transactions by promoting efficiency in and finality of settlement.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

8 15 U.S.C. 78q-1(b)(3)(F).

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The subject proposal regarding MMIs was developed in consultation with various industry organizations. Written comments relating to the proposed rule change have not yet been solicited or received. 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-2012-10 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549-1090.

All submissions should refer to File Number SR-DTC-2012-10. 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, D.C. 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings also will be available for inspection and copying at the principal office of DTC and on DTC's website at http://dtcc.com/downloads/legal/rule_filings/2012/dtc/SR-DTC-2012-10.pdf. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2012-10 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.[9]

Kevin M. O'Neill
Deputy Secretary

9 17 CFR 200.30-3(a)(12).