8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75487; File No. SR-DTC-2015-007)

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change Regarding the Discontinuance of the Distribution of Fractional Shares in Respect of Corporate Actions for New Issues in DTC's System

July 20, 2015

I. Introduction

On May 27, 2015, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-DTC-2015-007 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] a proposed rule change to discontinue the option offered by DTC to issuers that allows for the distribution of fractional shares of securities in DTC's system, when DTC is handling fractional dispositions of shares resulting from corporate actions, for new issues, as more fully described below. The proposed rule change was published for comment in the Federal Register on June 8, 2015.[3] The Commission did not receive comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description of the Proposed Rule Change

The following is a description of the proposed rule change, as provided by DTC:

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 75094 (June 2, 2015), 80 FR 32425 (June 8, 2015) (File No. SR-DTC-2015-007).

DTC's purpose with the proposed rule change is to discontinue the option offered by DTC to issuers that allows for the distribution of fractional shares of securities in DTC's system, when DTC is handling fractional dispositions of shares resulting from corporate actions, for new issues, as more fully described below.[4]

Background

When a securities issue is made eligible at DTC, DTC has offered three options to the issuer for handling the disposition of fractional shares in DTC's system resulting from a corporate action for the issue. The issuer may: (i) round up to the next full share or drop fractions, (ii) pay "cash-in-lieu" of fractional shares, or (iii) issue the fractional shares into an identifying number ("Fractional Identifier") generated by DTC.[5] The assets comprising the disposition of fractional shares, whether in the form of shares or cash, once received from the issuer's transfer or paying agent, are credited by DTC in proportional amounts to the respective accounts of Participants depending on the amount shares of the issue they have on deposit. Participants then distribute credits on their own books, as applicable, to their customers that hold beneficial interests in those shares.

The first two options for handling the disposition of fractional shares are specified in the DTC Distributions Service Guide ("Guide")[6] and DTC's Operational

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4 Terms not otherwise defined herein have the meaning set forth in the DTC Rules and Procedures ("DTC Rules"), available at http://www.dtcc.com/legal/rules-and-procedures.aspx.

5 The Fractional Identifier generated for the third option above has been separate from the CUSIP® identifier ("CUSIP") that is universally recognized by the marketplace.

6 See the Guide, p. 31, available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Distributions%20Service%20Guide%20FINAL%20November%202014.pdf.

Arrangements ("OA").[7] Distributions of fractional shares in DTC's system under the third option are delivered to Participants in accordance with the provisions of DTC Rule 6 that are applicable to DTC services related to Deposited Securities.[8]

Proposal

Fractional shares are not tradable. The distribution of fractional shares in respect of corporate actions reduces efficiencies for investors in an issue, including with respect to the value and transferability of assets delivered, as investors are required to wait for an extended period for the aggregation of fractional shares into a full share that may be traded. Tracking, processing and reporting of fractional shares separately from the associated CUSIP, which are necessitated by this process, increases costs to DTC and the industry.

In order to improve efficiencies for investors and reduce costs for DTC and the industry, DTC has proposed to discontinue the option for issuers to distribute any fractional shares for new issues into DTC's system. DTC will continue to allow issuers undergoing a corporate action with a choice between: (i) the rounding up and dropping of fractions, and (ii) the payment of cash-in-lieu of fractional shares. DTC will maintain the Fractional Identifiers previously designated for existing fractional shares within DTC, and continue to perform corporate actions processing with respect to those Fractional Identifiers.

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7 See the OA, p. 31, available at http://www.dtcc.com/~/media/Files/Downloads/legal/issue-eligibility/eligibility/operational-arrangements.pdf.

8 See DTC Rules (Rule 6 (Services)), p. 45, available at http://www.dtcc.com/~/media/Files/Downloads/legal/rules/dtc_rules.pdf.

Implementation

The effective date of the proposed rule change will be announced via a DTC Important Notice.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act[9] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. 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, as well as, in general, protect investors and the public interest.[10]

The Commission finds the proposed rule change consistent with the Act. More specifically, the Commission finds that the proposed rule change is consistent with section 17A(b)(3)(F) of the Act.[11] By eliminating the distribution of fractional shares for new issues within DTC's system, the proposed rule change should, as represented by DTC, improve efficiencies for investors relating to the disposition of fractional shares in corporate-action events, as well as reduce the costs for DTC and the industry relating to DTC tracking, processing and reporting on separate Fractional Identifiers for those issues, consistent with the provisions of section 17A(b)(3)(F) of the Act which require

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9 15 U.S.C. 78s(b)(2)(C).

10 15 U.S.C. 78q-1(b)(3)(F).

11 Id.

that the rules of the clearing agency be designed, among other things, to promote the prompt and accurate clearance and settlement of securities transactions, as well as, in general, to protect investors and the public interest.[12]

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of section 17A of the Act[13] and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to section 19(b)(2) of the Act, that proposed rule change SR-DTC-2015-007 be, and hereby is, APPROVED.[14]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[15]

Robert W. Errett,
Deputy Secretary.

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12 Id.

13 15 U.S.C. 78q-1.

14 In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

15 17 CFR 200.30-3(a)(12).