This document is scheduled to be published in the
Federal Register on 11/18/2016 and available online at
https://federalregister.gov/d/2016-27742, and on FDsys.gov

8011-01
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79304; File No. SR-DTC-2016-013)

# Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the DTC Settlement Service Guide and Distributions Guide Relating to the Anticipated U.S. Market Transition to a Shortened Settlement Cycle

November 14, 2016

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 November 7, 2016, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A)[3] of the Act and Rule 19b-4(f)(4)[4] thereunder. The proposed rule change was effective upon filing with the Commission. 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

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

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A).

4 17 CFR 240.19b-4(f)(4).

The proposed rule change would amend the Settlement Service Guide ("Settlement Guide")[5] and the Distributions Guide ("Distributions Guide")[6] (collectively, "Guides") of The Depository Trust Company ("DTC") to make technical revisions to the Guides in anticipation of the U.S. market transition to "T+2" settlement and other revisions, as described below.[7] The proposed rule changes to the Guides would not become effective until DTC has submitted a subsequent proposed rule change under Rule 19b-4.[8] Therefore, DTC would not implement versions of the Guides reflecting the proposed rule change until an effective date is established by the subsequent proposed rule change.[9]

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

In its filing with the Commission, the clearing agency 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

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5 Available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Settlement.pdf.

6 Available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Distributions%20Service%20Guide%20FINAL%20November%202014.pdf.

7 Capitalized terms not otherwise defined herein have the respective meanings set forth in the DTC Rules, By-laws and Organization Certificate ("Rules"), available at http://www.dtcc.com/legal/rules-and-procedures.aspx, the Settlement Guide and the Distributions Guide.

8 17 CFR 240.19b-4.

9 DTC will post versions of the relevant sections of the respective Guides reflecting the changes as they would appear upon the effectiveness of the subsequent proposed rule change mentioned above and will include a note on the cover page of the Guides to advise Participants of these changes.

examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The standard settlement cycle for certain securities has not changed since 1993, when the Commission adopted the current version of Rule 15c6-1(a) under the Act,[10] which (subject to certain exceptions) prohibits any broker-dealer from entering into a contract for the purchase or sale of a security that provides for payment and delivery later than three business days after the trade date, unless otherwise expressly agreed to by the parties at the time of the transaction.

In an effort to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands and harmonize the settlement cycle globally, the financial services industry, in coordination with its regulators, has been working on shortening the standard settlement cycle from T+3 to T+2. In connection therewith, the Commission has proposed a rule change to shorten the standard settlement cycle from T+3 to T+2.[11]

Effect on DTC

DTC provides depository and book-entry services pursuant to its Rules and Procedures, including its service guides and operational arrangements.[12] DTC services

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10 17 CFR 240.15c6-1.

11 Amendment to Securities Transaction Settlement Cycle. See Securities Exchange Act Release No. 78962 (September 28, 2016), 81 FR 69240 (October 5, 2016) (S7-22-16).

12 Available at www.dtcc.com.

include custody of securities certificates and other instruments, and settlement and asset services for types of eligible securities including, among others, equities, warrants, rights, corporate debt and notes, municipal bonds, government securities, asset-backed securities, depositary receipts and money market instruments. As the holder of securities *vis a vis* issuers, DTC receives distributions, dividends, and corporate actions and passes them to its Participants.

DTC processes transactions for settlement, subject to its risk controls, on the same day it receives them. Distributions on securities held at DTC on behalf of its Participants pass through DTC and are credited to the accounts of Participants on the same day that they are paid to DTC. As a result, DTC's Rules and Procedures are not generally affected by the industry's move to T+2.

However, certain provisions in the Settlement Guide and Distributions Guide, respectively, relating to the DTC ID Net Service ("ID Net")[13] and distributions on securities held at DTC include a presumption that transactions settle on a three-day settlement cycle (i.e., T+3). This is expected to change as the securities industry switches to a standard T+2 settlement cycle in 2017. Pursuant to the proposed rule change, DTC would revise the texts of Guides to make conforming and technical changes as described below.

<u>Settlement Guide Changes</u>

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13 ID Net allows DTC Participants that are also members of National Securities Clearing Corporation ("NSCC") to realize certain processing efficiencies with respect to institutional transactions processed at DTC for which related broker transactions are processed through NSCC's Continuous Net Settlement System ("CNS"). <u>See</u> Settlement Guide, <u>supra</u> note 5, at 35-43.

DTC would modify the Settlement Guide relating to ID Net to accommodate the eventual move to T+2.

First, the deadline for submission of affirmed ID Net trades by a Matching Utility would be changed to 11:30 a.m. eastern time on settlement date minus one ("SD-1") rather than specifically stating the deadline at 9 p.m. on T+2. The move to T+2 necessitates this change since ID transactions must enter the ID Net processing on the date prior to settlement date to realize processing efficiencies in relation to related CNS transactions settling on settlement date, as set forth in the Settlement Guide.[14]

Second, the Settlement Guide would be revised to state that ID Net Firms may exempt a receive obligation from ID Net before the night of SD-1 rather than before the night of T+2 as is currently stated. The move to T+2 necessitates this change because transactions are staged for ID Net on the night before settlement date.

DTC would also delete a reference in the Settlement Guide that states that ID Net trades must settle in the "regular way" and defines "regular way" as T+3. This provision is obsolete as DTC does not include scheduled settlement date as a criteria for ID Net processing.

Distributions Guide Changes

DTC would modify the Distributions Guide text relating to the DTC interim accounting process to account for the Shortened Settlement Cycle.

Interim accounting is an important part of the entitlement and allocation process relating to distributions. During the interim accounting period, DTC facilitates the entitlements and allocation process systematically for both the buyer and seller of a

[14] Id.

transaction conducted in the marketplace and submitted to CNS.[15] The interim accounting period is defined as the time period during which a trade settling has income or a due bill attached to it.[16] The due bill period is determined in accordance with market rules[17] and currently extends for the time from the record date[18] plus one day up to the ex-date plus two days.[19]

In order to prepare for the migration to T+2 settlement, DTC would modify the interim accounting process to account for the shortened period. In this regard, DTC would revise the Distributions Guide to reflect that the interim accounting period would reflect the anticipated due bill period that would be recognized by the industry, such that the interim accounting period would extend from the record date plus one day up to the ex-date plus one day. The proposed change to the interim accounting period would be

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15 Securities movements for transactions processed through CNS occur free of payment at DTC. See Settlement Guide, supra note 5, at 15.

16 In the absence of DTC's interim accounting process, trades scheduled to settle after the record date "with distribution" (those that entitle the receiver to the distribution) would have a due bill or income payment that attached to document the entitlement and associated obligations between the seller and buyer relating to the distribution. The distribution entitlement would then need to be handled between the seller and the buyer of the security outside of DTC's Distributions Service.

17 E.g., New York Stock Exchange ("NYSE") Rules 255-259, available at http://nyserules.nyse.com/nyse/rules/nyse-rules/chp_1_3/chp_1_3_16/default.asp.

18 The record date is the date when an investor must be on the issuer's books as a shareholder to receive a distribution.

19 The ex-date is determined in accordance with the applicable market procedures. E.g., NYSE Listed Company Manual, Section 703.03 (part 2) (Stock Split/Stock Rights/Stock Dividend Listing Process, available at http://nysemanual.nyse.com/lcm/Help/mapContent.asp?sec=lcm-sections&title=sx-ruling-nyse-policymanual_703.02(part2)&id=chp_1_8_3_4.

reflected in the text of the subsections of the Interim Accounting section of the Distributions Guide.

DTC would also adjust the table in the Distributions Guide which describes the date on which certain stock distributions, the timing for which are tied to the settlement cycle, are allocated. Specifically, the table would be revised for affected distribution types, as follows to account for the shortening of the settlement cycle:

| **For this type of distribution**[20] | **Allocation normally occurs**[21] |
|---|---|
| Stock dividends with a late ex-date | On the payable date or ex-date +**32**, whichever comes later. |
| Stock splits, with ex-distribution beginning on the business day following the payable date | For the split shares on ex-date +**32**. |
| Stock spinoffs to a DTC-eligible security | On the payable date, or ex-date +**32**, whichever comes later. |

DTC would also revise the text of the Distributions Guide to make a grammatical correction.

Implementation Date

The proposed rule changes to the Guides would not become effective until DTC has submitted a subsequent proposed rule change under Rule 19b-4.[22] Therefore DTC would not implement the proposed changes until an effective date is established by the subsequent proposed rule change. DTC anticipates that the implementation date would

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20 Stock distribution types unaffected by the proposed rule change are not shown.

21 Bold, strike-through text indicates a deletion. Bold, underlined text indicates an addition.

22 17 CFR 240.19b-4.

correspond with the industry's transition to a T+2 settlement cycle, which is currently anticipated to be in September 2017. It is anticipated by DTC that the proposed rule changes to the Guides would become effective immediately unless further regulatory action is required.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act[23] requires that the rules of the clearing agency be designed, inter alia, to promote the prompt and accurate clearance and settlement of securities transactions. DTC believes that the proposed rule change is consistent with this provision because it would allow ID Net transactions and distributions to continue to be processed when the U.S. market standard settlement cycle is shortened. Thus, by allowing processing of transactions through ID Net and the Distributions Service in accordance with standard U.S. settlement timeframes (including when the standard settlement cycle is shortened), the proposed rule changes would promote the prompt and accurate clearance and settlement of securities transactions.

(B) Clearing Agency's Statement on Burden on Competition

DTC does not believe that the proposed rule change have any impact on competition because the proposed rule change consists of conforming and technical changes to the texts of the Guides that would correspond with the industry's transition to a T+2 settlement cycle.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

[23] 15 U.S.C. 78q-1(b)(3)(F).

DTC has not solicited and does not intend to solicit comments regarding the proposed rule change. DTC has not received any unsolicited written comments from interested parties. To the extent DTC receives written comments on the proposed rule change, DTC will forward such comments to the Commission.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)[24] of the Act and paragraph (f) of Rule 19b-4[25] thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2016-013 on the subject line.

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24 15 U.S.C. 78s(b)(3)(A).

25 17 CFR 240.19b-4(f).

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-DTC-2016-013. 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, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (http://dtcc.com/legal/sec-rule-filings.aspx). 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-2016-013 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.[26]

Brent J. Fields
Secretary

[26] 17 CFR 200.30-3(a)(12).

[FR Doc. 2016-27742 Filed: 11/17/2016 8:45 am; Publication Date:  11/18/2016]