



8011-01p
SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-87474; File No. SR-DTC-2019-010]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change in Connection with Changes to the Account Structure of Euroclear Bank at The Depository Trust Company

November 6, 2019.

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 October 24, 2019, 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) of the Act³ and Rule 19b-4(f)(4) thereunder.⁴ 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

The proposed rule change⁵ of DTC would make technical amendments to Rule 34 (EB Link) in connection with changes to the account structure of Euroclear Bank SA/NV (“EB”) at DTC, as described below.

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).

⁵ Each capitalized term not otherwise defined herein has its respective meaning as set forth in the Rules, By-Laws and Organization Certificate of The Depository

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 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 proposal would make technical amendments to Rule 34 (EB Link) in connection with changes to the account structure of EB at DTC, as described below.

(i) Background

EB was accepted by DTC as a Participant on February 18, 2016. At the time, the purpose of EB's membership was to establish a free-of-payment ("FOP") Account at DTC ("EB CP Account")⁶ to facilitate the positioning of securities ("CP Securities") held at DTC ("EB Collateral Positioning") for transfers on the books of EB in connection with

Trust Company (the "Rules"), available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

⁶ Rule 34 provides that the adjectival use of "CP" in Rule 34 refers to terms or matters relating and limited to "Collateral Positioning" under Rule 34. See id.

EB collateral management services.⁷ To support EB Collateral Positioning, DTC filed Rule 34, which was approved by the Commission on July 19, 2016.⁸

Under Rule 34, a DTC Participant that is also a participant of EB (“CP Participant”) may designate a sub-account at DTC (“CP Sub-Account”) for use under Rule 34, thereby authorizing EB as its representative (“CP Representative”), and authorizing DTC to provide position and transaction information to EB and to accept EB instructions submitted on behalf of such CP Participant, with respect to the CP Sub-Account of the CP Participant.⁹

The CP Participant instructs DTC to deliver securities from the CP Participant’s Securities Account to its CP Sub-Account, in order to identify the securities that it wishes to make available for EB Collateral Positioning and collateral transfers on the books of EB (“EB Collateral Transactions”). After the CP Securities have been credited to the CP Sub-Account, EB, as CP Representative of the CP Participant, instructs DTC to make a FOP delivery of the CP Securities from the CP Sub-Account to the EB CP Account.

⁷ Prior to the establishment of the EB CP Account, EB had not been a DTC Participant nor had an Account at DTC.

⁸ See Securities Exchange Act Release No. 78358 (July 19, 2016), 81 FR 48482 (July 25, 2016 (SR-DTC-2016-004) (“Rule 34 Approval Order”).

⁹ In addition, Rule 34 provides that the CP Participant has to be a user of the DTCC Euroclear Global Collateral Ltd. (“DEGCL”) Inventory Management Service (“DEGCL IMS”). DEGCL is a United Kingdom joint venture of The Depository Trust & Clearing Corporation, the corporate parent of DTC, and Euroclear S.A./N.V. (“Euroclear”). As noted in the Rule 34 Approval Order, DTC understands that by providing Participants with a mechanism for EB Collateral Positioning, Rule 34 indirectly supports the DEGCL IMS service. DEGCL IMS is operated by EB and other entities in the Euroclear group, as the service provider to DEGCL, in accordance with appropriate agreements among them and in compliance with applicable regulatory requirements. There is no direct relationship between DTC and DEGCL IMS.

After CP Securities have been credited to the EB CP Account, it is then EB's responsibility to credit them to an account at EB maintained for the CP Participant, as an EB participant using EB collateral management services ("EB Collateral Participant"), for EB Collateral Transactions.

Pursuant to Rule 34, EB may also instruct DTC to make a FOP delivery of CP Securities from the EB CP Account to the Securities Account of a Participant that EB has designated to DTC as EB's global custodian ("EB Global Custodian") in order to liquidate CP Securities, if a CP Participant that is an EB Collateral Participant has defaulted on its obligations in respect of any EB Collateral Transaction ("EB Liquidating Transaction").

(ii) Proposed Rule Change

EB has now applied to DTC for a delivery-versus-payment ("DVP") Account, and its application was approved by DTC on September 20, 2019. With a DVP Account, EB will be permitted to engage in other transactions, including DVP transactions, at DTC, in addition to the FOP deliveries provided for under Rule 34.¹⁰ EB has also requested that

¹⁰ DTC understands that EB performs certain functions of a clearing agency with respect to U.S. securities for its U.S. participants pursuant to an exemption from clearing agency registration approved by the Commission (the "EB Exemption"). See Self-Regulatory Organizations; Morgan Guaranty Trust Company of New York, Brussels Office, as Operator of the Euroclear System; Order Approving Application for Exemption From Registration as a Clearing Agency, Securities Exchange Act Release No. 39643 (February 11, 1998), 63 FR 8232 (February 18, 1998); Self-Regulatory Organizations; Morgan Guaranty Trust Company, Brussels Office, as Operator of the Euroclear System and Euroclear Bank, S.A.; Order Approving Application to Modify an Existing Exemption From Clearing Agency Registration, Securities Exchange Act Release No. 43775 (December 28, 2000), 66 FR 819 (January 4, 2001); and Euroclear Bank SA/NV; Order of the Commission Approving an Application To Modify an Existing Exemption From Clearing Agency Registration, Securities Exchange Act Release No. 79577 (December 16, 2016), 81 FR 93994 (December 22, 2016) (File No. 601-01).

the new DVP Account (“New EB Account”) become its main Securities Account, and that the EB CP Account become a sub-account of the New EB Account.

In light of this development, DTC has reviewed Rule 34 and determined that, although no substantive changes may be necessary, it would be preferable to clarify certain provisions of Rule 34 to more accurately reflect the new EB account structure. Specifically, DTC is proposing to make minor technical amendments to Rule 34 that would (i) more clearly differentiate between the EB CP Account and other Securities Accounts of EB, and (ii) expressly provide EB with the option to instruct DTC to deliver CP Securities from the EB CP Account to another Securities Account of EB for EB Liquidating Transactions if a CP Participant that is an EB Collateral Participant has defaulted on one of its EB Collateral Transaction obligations.

A. EB Collateral Positioning

Currently, the language of Rule 34 reflects that the EB CP Account is the only EB Account at DTC.¹¹ In particular, Rule 34 defines the Securities Account established by EB for purposes of Rule 34 as the “EB Account.” However, because EB’s application to establish a DVP Account has been approved by DTC, the Securities Account established by EB for Rule 34 will no longer be the only EB Account. Therefore, to more clearly differentiate between the EB CP Account and other Securities Accounts of EB that may be established, including, but not limited to the New EB Account, DTC is proposing to change the defined term in Rule 34 from “EB Account” to “EB CP Account.” In addition, to conform with that change, DTC is proposing to replace the current title of

¹¹ See supra note 7.

Rule 34, “EB Link,” with a new title, “EB Collateral Positioning,” and to delete the defined term “EB Link” from Rule 34.

B. EB Liquidating Transactions

Rule 34 currently provides that EB may instruct DTC to deliver CP Securities from the EB CP Account to the EB Global Custodian in connection with an EB Liquidating Transaction. With its new account structure, EB may process EB Liquidating Transactions through its own DVP Securities Accounts, including the New EB Account, and may no longer require an EB Global Custodian. Therefore, DTC is proposing to amend Rule 34 to expressly provide EB with the option to deliver CP Securities from the EB CP Account to another Securities Account of EB for EB Liquidating Transactions. Specifically, the proposed rule change would provide that “EB may, from time to time . . . (iii) in connection with an EB Liquidating Transaction, instruct the Corporation to make a Free Delivery of CP Securities from the EB CP Account¹² to the Securities Account of the EB Global Custodian or to another Securities Account of EB, whereupon such Securities shall no longer be CP Securities [emphasis added].”

In addition, DTC is proposing to make conforming changes to the definitions of “CP Securities” and “EB Global Custodian.”

¹² As noted above, pursuant to the proposed rule change, DTC would change the defined term “EB Account” to “EB CP Account.”

2. Statutory Basis

DTC believes that the proposed rule change is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to DTC, in particular Section 17A(b)(3)(F) of the Act.¹³

Section 17A(b)(3)(F) of the Act requires, inter alia, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹⁴ The proposed rule change would make minor technical amendments to Rule 34 in connection with changes requested by EB to its account structure at DTC in order to (i) clearly differentiate between the EB CP Account and other Securities Accounts of EB, and (ii) expressly provide EB with the option, under specific circumstances, to instruct DTC to deliver securities from the EB CP Account to another Securities Account of EB. By amending Rule 34 in this manner, the proposed rule change would enhance the clarity and transparency of Rule 34 so that Participants may better understand how to use Rule 34 for EB Collateral Positioning, which would allow Participants to more accurately and efficiently deploy their securities collateral for EB Collateral Transactions. Therefore, DTC believes that the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities collateral transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

¹³ 15 U.S.C. 78q-1(b)(3)(F).

¹⁴ Id.

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

DTC believes that the proposed rule change would not have an impact on competition.¹⁵ The proposed rule change would make minor technical amendments to Rule 34 in connection with changes requested by EB to its account structure at DTC by (i) clearly differentiating between the EB CP Account and other Securities Accounts of EB, and (ii) expressly providing EB with the option, under specific circumstances, to instruct DTC to deliver securities from the EB CP Account to another Securities Account of EB. The proposed rule change would not make any substantive changes to the rights and obligations of Participants or other interested parties under Rule 34, and so would not affect such rights and obligations. Therefore, DTC believes that the proposed rule change to make technical amendments to Rule 34 would not have an impact on competition.¹⁶

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

Written comments relating to the proposed rule change have not 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁷ and paragraph (f) of Rule 19b-4 thereunder.¹⁸ At any time within 60 days of

¹⁵ 15 U.S.C. 78q-1(b)(3)(I).

¹⁶ Id.

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f).

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-2019-010 on the subject line.

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-2019-010. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2019-010 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.¹⁹

Jill M. Peterson,
Assistant Secretary.

¹⁹ 17 CFR 200.30-3(a)(12).

[FR Doc. 2019-24600 Filed: 11/12/2019 8:45 am; Publication Date: 11/13/2019]