



This document is scheduled to be published in the Federal Register on 12/20/2019 and available online at <https://federalregister.gov/d/2019-27452>, and on govinfo.gov

8011-01

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87756; File No. SR-DTC-2019-012]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Extend the Implementation Timeframe for a Rule Change to Implement a New Algorithm for Transactions Processed in the Night Cycle

December 16, 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 December 13, 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

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 change⁵ would amend the Procedures⁶ set forth in the DTC Settlement Service Guide (“Settlement Guide”)⁷ to extend the implementation timeframe for a rule change (“Approved Rule Change”), that became effective pursuant to rule filing SR-DTC-2019-005, as amended (“Original Rule Filing”)⁸ upon approval by the Commission.⁹ In this regard, pursuant to the proposed rule change, the Settlement Guide would be amended to state that the Approved Rule Change will be implemented by March 6, 2020, rather than being implemented by December 6, 2019, as stated in the Settlement Guide, as discussed below.

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

⁵ Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC (“Rules”), available at http://www.dtcc.com/~/media/Files/Downloads/legal/rules/dtc_rules.pdf.

⁶ Pursuant to the Rules, the term “Procedures” means the Procedures, service guides, and regulations of DTC adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 5. Pursuant to Rule 27, each Participant and DTC is bound by the Procedures and any amendment thereto in the same manner as it is bound by the Rules. See Rule 27, supra note 5.

⁷ Available at <http://www.dtcc.com/~/media/Files/Downloads/legal/service-guides/Settlement.pdf>.

⁸ Available at <http://www.dtcc.com/legal/sec-rule-filings?subsidiary=DTC&pgs=1>.

⁹ See Securities Exchange Act Release No. 87022 (September 19, 2019), 84 FR 50541 (September 25, 2019) (SR-DTC-2019-005).

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 proposed rule change would amend the Procedures set forth in the Settlement Guide¹⁰ to extend the implementation timeframe for the Approved Rule Change. In this regard, pursuant to the proposed rule change, the Settlement Guide would be amended to state that the Approved Rule Change will be implemented by March 6, 2020, rather than being implemented by December 6, 2019, as stated in the Settlement Guide, as discussed below.

Background

Pursuant to the Approved Rule Change, DTC will implement changes (“Night Cycle Reengineering”) related to its processing of book-entry Deliveries¹¹ and Payment Orders¹² in the DTC night cycle (“Night Cycle”). As more fully described in the Original Rule Filing, Night Cycle Reengineering is designed to maximize transaction throughput by optimizing available positions and controlling the order in which transactions are attempted for settlement within existing Night Cycle timeframes. Upon implementation,

¹⁰ Supra note 7.

¹¹ Pursuant to Rule 1, the term “Delivery” as used with respect to a Security held in the form of a Security Entitlement on the books of DTC, means debiting the Security from an Account of the Deliverer and crediting the Security to an Account of the Receiver. Supra note 1.

¹² Pursuant to the Settlement Guide, “Payment Order” means a transaction in which a Participant charges another Participant for changes in value for outstanding stock loans or option contract premiums. See Settlement Guide, supra note 7, at 5.

the reengineered Night Cycle will introduce a new, advanced settlement processing algorithm capable of evaluating each Participant’s transaction obligations, available positions, transaction priorities and risk management controls, including Net Debit Cap and Collateral Monitor,¹³ to identify the transaction processing order that maximizes Night Cycle settlement rates.

Pursuant to the Settlement Guide, the changes set forth in the Approved Rule Change are to take effect by December 6, 2019. DTC proposes to extend the implementation timeframe for the Approved Rule Change to allow additional time to facilitate finalization of operational testing of DTC systems changes related to the implementation of the Approved Rule Change.

In this regard, pursuant to the proposed rule change, DTC proposes to amend the Settlement Guide with respect to the implementation timeframe setting forth the date by which the Approved Rule Change will become effective, as described below.

Proposed Rule Change

The Settlement Guide contains the following legend (“Original Legend”)¹⁴ regarding the implementation timeframe for the Approved Rule Change.

¹³ In managing its credit risk, DTC uses the Collateral Monitor and Net Debit Cap. These two controls work together to protect the DTC settlement system in the event of Participant default. The Collateral Monitor requires net debit settlement obligations, as they accrue intraday, to be fully collateralized; the Net Debit Cap limits the amount of any Participant’s net debit settlement obligation to an amount that can be satisfied with DTC liquidity resources (the Participants Fund and the committed line of credit from a consortium of lenders). See Settlement Guide, supra note 7, at 64-67.

¹⁴ See Settlement Guide, supra note 7 at 1.

[Changes to these Procedures, as amended by File No. SR-DTC-2019-005, are available at dtcc.com/legal/sec-rule-filings?subsidiary=DTC. These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. By December 6, 2019, these changes will be implemented, and this legend will automatically be removed from these Procedures.]

Pursuant to the proposed rule change, this legend would be deleted and replaced with the following revised legend (“Revised Legend”).

[Changes to these Procedures, as amended by File No. SR-DTC-2019-005, are available at dtcc.com/legal/sec-rule-filings?subsidiary=DTC. These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. By March 6, 2020, these changes will be implemented, and this legend will automatically be removed from these Procedures.]

Implementation Timeframe

The proposed rule change would become effective upon filing with the Commission such that the text of the Settlement Guide would be revised to delete the Original Legend and replace it with the Revised Legend, as discussed above.

2. Statutory Basis

DTC believes this proposal is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Specifically,

DTC believes this proposal is consistent with Section 17A(b)(3)(F) of the Act¹⁵ for the reason described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹⁶ DTC believes that by allowing additional time to finalize operational testing of DTC system changes related to the implementation of the Approved Rule Change, the proposed rule change would facilitate the ability of DTC to implement the Approved Rule Change in a manner that minimizes the possibility of disruptions relating to implementation of Night Cycle Reengineering, which is designed to maximize transaction throughput in the Night Cycle, as discussed above. Therefore, DTC believes that the proposed rule change to extend the implementation timeframe, which would allow additional time for DTC to complete operational testing relating to the Approved Rule Change, would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

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

DTC does not believe the proposed rule change would have any impact on competition. The proposed rule change would extend the implementation timeframe for the Approved Rule Change and not affect existing processing of securities transactions at DTC.

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

¹⁶ Id.

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

DTC has not solicited and does not intend to solicit written 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) of the Act¹⁷ and paragraph (f) of Rule 19b-4 thereunder.¹⁸ 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

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-DTC-2019-012 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-2019-012. 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-2019-012 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

J. Matthew DeLesDernier,

Assistant Secretary.

¹⁹ 17 CFR 200.30-3(a)(12).

[FR Doc. 2019-27452 Filed: 12/19/2019 8:45 am; Publication Date: 12/20/2019]