SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66919; File No. SR-DTC-2012-02)

May 3, 2012

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change to Amend Rules Relating to the Issuance of and Maturity Presentment Processing for Money Market Instruments

I. Introduction

On March 8, 2012, The Depository Trust Company ("DTC") filed proposed rule change SR-DTC-2012-02 with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").[1] Notice of the proposed rule change was published in the Federal Register on March 26, 2012.[2] The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

The Maturity Presentment processing for money market instruments ("MMIs") is initiated automatically by DTC each morning for all of the MMIs maturing that day.[3] The automatic process electronically sweeps all maturing positions of MMI CUSIPs from a participant's accounts and credits the participant's account with the amount of the payments to

---

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

[2] Securities Exchange Act Release No. 66630 (March 20, 2012), 77 FR 17534 (March 26, 2012).

[3] The term "Maturity Presentment" is defined in Rule 1 of DTC's Rules and Procedures as a Delivery Versus Payment of matured MMI securities from the account of a presenting participant to the designated paying agent account for that issue as provided for in Rule 9(C) and as specified in DTC's procedures.

be received with respect to such presentments. The matured MMIs are delivered to the account of the applicable issuing or paying agent ("IPA"),[4] also a DTC participant, and the IPA's account is debited for the amount of the maturity proceeds. The debited amount will be included in the IPA's net settlement amount. Similarly, the credits of participants that presented maturing MMIs will be included in those participants' net settlement amount.

MMI issuers and IPAs commonly view the primary source of funding for payments of MMI maturity presentments as flowing from new issuances of MMIs in the same program by that MMI issuer on that day. When the MMI issuer issues more new MMIs than the number of MMIs maturing, the MMI issuer would have no net funds payment due to the IPA on that day. When an issuer has more maturing MMIs than new issuances, it would have an obligation to pay to the IPA the net amount of the MMIs maturing that day over the new issuance. When net maturity presentments exceed issuances on a day, IPAs at their discretion may provide significant intraday credit to issuers for the excess. However, the IPA as an agent of an issuer is not obligated to fund the presentments at DTC unless it receives payment from the issuer.

The business relationships between IPAs and their MMI issuers play a key role in determining if an IPA will execute a refusal to pay at DTC with respect to presentment of an MMI issuance for which the IPA has not received funds from the MMI issuer. Because maturity presentments of an issuer's MMIs for which the IPA acts are processed automatically and

---

[4] Rule 1 of DTC's Rules and Procedures defines the term "MMI Issuing Agent" generally as a participant acting as an issuing agent for an issuer with respect to a particular issue of MMI securities of that issuer and an "MMI Paying Agent" generally as a participant acting as a paying agent for an issuer with respect to a particular issue of MMI securities of that issuer. Since MMI Issuing Agents and MMI Paying Agents are often a single entity, this filing refers to both entities collectively as "IPAs."

randomly against the IPA's account, an IPA is permitted to refuse to pay for all of an issuer's maturities in an MMI program.[5] An IPA that refuses payment on an MMI maturity must communicate its intention to DTC using the DTC Participant Terminal/Browser Service (PTS/PBS) MMRP function. This function allows the IPA to enter a refusal to pay instruction for a particular issuer, referred to as an Issuer Failure/Refusal to Pay ("RTP"), up to 3:00 p.m. Eastern Time ("ET") on the date of the relevant maturity presentment. Such an instruction causes DTC to reverse all transactions related to the relevant maturity presentment. An IPA RTP may have a significant market impact on the issuer's reputation and credit standing.

In late 2009, DTC and the Securities Industry and Financial Markets Association ("SIFMA") formed the MMI Blue-Sky Task Force ("Task Force") to address systemic and unique market risks associated with the MMI process, including those related to DTC's maturity presentment processing. The Task Force, along other money market industry members,[6] determined that DTC's current MMI processing schedule permits issuance and other transaction activity that can affect an issuer's net funding amount or proceeds after the 3:00 P.M. E.T. deadline for RTP instructions.[7] Accordingly, DTC is amending certain provisions in its

---

[5] DTC employs a four-character acronym to designate an issuer's MMI program. An issuer can have multiple acronyms. The IPA uses the acronym(s) when submitting an instruction of its refusal to pay for a given issuer's program(s).

[6] The money market industry members include the Commercial Paper Issuers Working Group, which is comprised of both bank and corporate commercial paper issuers, and the Asset Managers Forum, whose membership consists solely of buy-side investors.

[7] The Task Force's short-term recommendations focused on addressing the credit risk exposure that IPAs face because of a lack of transparency around the amount an issuer must fund to cover its maturities. The recommendations called for requiring issuers to fund maturity presentments by 1:00 P.M. if there is a net debit and for establishing new deadlines of 1:30 P.M. for the submission of all new valued issuance to DTC and of 2:15 P.M. for receivers of new

Settlement Service Guide in order to provide increased transparency for IPAs before the 3:00 P.M. RTP deadline, which should in turn assist IPAs in making better informed credit decisions when an issuer has more maturities than new issuances. The rule changes to DTC's Settlement Service Guide, as approved, include:

1. Making all MMI issuance and deliver order transactions subject to DTC's Receiver Authorized Delivery ("RAD") function for approval regardless of transaction value.[8]
2. Adjusting the MMI valued new issuance cut-off time from 3:20 P.M. E.T. to 2:00 P.M. E.T.
3. Requiring use of RAD for approval of all MMI issuance and deliver order transactions, regardless of value, and establishing a new MMI cutoff time of 2:45 P.M. E.T. instead of the current 3:30 P.M. E.T.[9]

DTC will implement the changes described above upon approval of this proposed rule change by the Commission.[10]

---

valued issuance to accept delivery. These recommended new deadlines were intended to give an IPA sufficient time to calculate its exposure and if a funding shortfall exists work with the issuer to resolve the deficiency before 3:00 P.M., which is DTC's deadline for an IPA to fund the maturities or to issue an RTP. For more information, see DTCC Press Release "DTCC and SIFMA Release Task Force Report Identifying Opportunities to Mitigate Systemic and Credit Risk in Processing of Money Market Instruments" (March 31, 2011), which can be found at www.dtcc.com/news/press/releases/2011/dtcc_sifma_task_force_report.php.

8 This change will eliminate the ability for a receiver to "force" a reclaim upon an IPA close to or after the 3:00 P.M. RTP cutoff that would alter the amount of funding an issuer needs to provide late in the day and would also eliminate matched reclaims that currently override participant risk management controls.

9 If a transaction is not approved in RAD by 2:45 P.M. E.T., the transaction will drop and will need to be resubmitted.

III. Discussion

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 and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.[11] The Commission believes that the changes being made by this proposed rule change should help IPAs to determine earlier in the day if there is a funding shortfall with respect to an issuer and in turn help reduce late day reversals of MMI transactions by IPAs. Additionally, the changes to the Settlement Service Guide should serve to reinforce consistent MMI business practices by implementing earlier deadlines for issuances processing and receiver approvals and thereby make the processing of MMI issuances and maturities more efficient.

Accordingly, for the reasons stated above the Commission believes that the proposed rule change is consistent with DTC's obligation under Section 17A of the Act and the rules and regulations thereunder.[12]

IV. Conclusion

---

[10] In addition to the changes described above, DTC is also making unrelated technical changes to its Settlement Service Guide in order to conform its rules to its current practices and to a previously approved rule filing, SR-DTC-2011-01. Securities Exchange Release Act No. 34-63775 (January 26, 2011), 76 FR 5843 (February 2, 2011).

[11] 15 U.S.C. 78q-1(b)(3)(F).

[12] In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, particularly with the requirements of Section 17A of the Act, and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-2012-02) be and hereby is approved.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.[13]

Kevin M. O'Neill
Deputy Secretary

---

[13] 17 CFR 200.30-3(a)(12).