

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-99456; File No. SR-DTC-2023-013)

February 1, 2024

Self-Regulatory Organizations; The Depository Trust Company; Order Approving of Proposed Rule Change to Modify the DTC Settlement Service Guide

**I. INTRODUCTION**

On December 20, 2023, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-DTC-2023-013 (“Proposed Rule Change”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder.<sup>2</sup> The Proposed Rule Change was published for comment in the Federal Register on December 28, 2023.<sup>3</sup> The Commission has received no comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.<sup>4</sup>

**II. BACKGROUND**

DTC serves as a central securities depository providing, in part, custodial services for equity securities, which include the safekeeping, record keeping, book-entry transfer,

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 99234 (Dec. 22, 2023), 88 FR 89752 (Dec. 28, 2023) (File No. SR-DTC-2023-013) (“Notice of Filing”).

<sup>4</sup> Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC (“Rules”) and the DTC Settlement Service Guide (“Settlement Guide”), available at <https://www.dtcc.com/legal/rules-and-procedures.aspx>.

and pledge of securities among its Participants.<sup>5</sup> DTC uses certain risk management controls, including its Collateral Monitor and Net Debit Cap, to protect the DTC settlement system in the event of a Participant default by ensuring that at any time the settlement obligation of any Participant will be fully collateralized and the amount due in settlement cannot exceed DTC liquidity resources.<sup>6</sup>

The Collateral Monitor<sup>7</sup> tracks whether each Participant has available sufficient collateral value to secure funding for a Participant's net settlement obligation, in the event of the Participant's default.<sup>8</sup> As such, the Collateral Monitor requires net debit settlement obligations to be fully collateralized as they accrue intraday, preventing the completion of transactions that would cause a Participant's Net Debit Balance<sup>9</sup> to exceed

---

<sup>5</sup> See The Depository Trust Company, Disclosure Framework for Covered Clearing Agencies and Financial Market Infrastructures (Mar. 2023) ("Disclosure Framework"), available at [https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/DTC\\_Disclosure\\_Framework.pdf](https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/DTC_Disclosure_Framework.pdf).

<sup>6</sup> See *id.*

<sup>7</sup> The "Collateral Monitor" of a Participant refers to the algebraic sum of (i) the Net Credit or Debit Balance of the Participant and (ii) the aggregate Collateral Value of the Collateral of the Participant. See Rule 1 (definition of "Collateral Monitor"), *supra* note 4.

<sup>8</sup> See Disclosure Framework, *supra* note 5, at 54.

<sup>9</sup> The "Net Debit Balance" of a Participant is the amount by which the Gross Debit Balance of the Participant exceeds its Gross Credit Balance. See Rule 1 (definition of "Net Debit Balance"), *supra* note 4. The "Gross Debit Balance" of a Participant refers to the aggregate amount of money DTC debits or charges to all the Accounts in all the Account Families of the Participant without accounting for any amount of money credited thereto. *Id.* (definition of "Gross Debit Balance"). The "Gross Credit Balance" of a Participant refers to the aggregate amount of money DTC credits to all the Accounts in all the Account Families of the Participant without accounting for any amount of money debited or charged thereto. *Id.* (definition of "Gross Credit Balance").

the value of the Collateral in the Participant’s account.<sup>10</sup> DTC states that this ensures it will have sufficient Collateral to obtain funding for settlement if a Participant fails to pay for its settlement obligations.<sup>11</sup> The Collateral Monitor tracks the value of Collateral supporting the settlement obligation of each Participant, where the collateral value of a security is the market price less the haircut amount determined by DTC.<sup>12</sup> Throughout the day, debits and credits to the Participant’s securities and settlement accounts result in corresponding changes in its Collateral Monitor.<sup>13</sup> When processing a transaction, DTC verifies that the deliverers and receiver’s Collateral Monitor will not become negative when the transaction is processed, and when under-collateralized, the transaction will remain in a pending status until the deficient account has sufficient collateral to allow for processing.<sup>14</sup>

The Net Debit Cap limits the Net Debit Balance that a Participant can incur, thus limiting any Participant’s net debit settlement obligation to an amount that can be covered by DTC’s liquidity resources at any point during DTC’s processing day.<sup>15</sup>

Likewise, the Aggregate Affiliated Family Net Debit Cap limits the sum of Net Debit

---

<sup>10</sup> The “Collateral” of a Participant refers to the sum of (i) the Actual Participants Fund Deposit of the Participant, (ii) the Actual Preferred Stock Investment of a Participant, (iii) all Net Additions of the Participant and (iv) any SPP wired by the Participant to the Corporation. See id. (definition of “Collateral”); infra note 18.

<sup>11</sup> See Notice of Filing, supra note 3, at 89752.

<sup>12</sup> See Disclosure Framework, supra note 5, at 53.

<sup>13</sup> See id. at 54.

<sup>14</sup> See id.

<sup>15</sup> See Settlement Guide, supra note 4, at 6; definition of Net Debit Balance, supra note 9.

Balances of an Affiliated Family of Participants, provided that the maximum Aggregate Affiliated Family Net Debit Cap not exceed the total available liquidity resources of DTC.<sup>16</sup> When a transaction would cause a Participant's Net Debit Balance to exceed its Net Debit Cap, it is not processed.<sup>17</sup> Instead, the transaction remains in a pending status until the Participant's Net Debit Balance is sufficiently reduced to allow processing. The Net Debit Balance may be reduced during the processing day by, among other things, receipt of a Delivery Versus Payment, which generates credits to the Participant's settlement account, or by a Settlement Progress Payment ("SPP"), which are funds that may be wired to DTC<sup>18</sup> for the Participant to prevent its Net Debit Cap from blocking its receipt of securities.

According to DTC, its liquidity structure is designed to maintain sufficient financial resources to complete settlement each business day, even in the event of the failure to settle of a Participant, or Affiliated Family of Participants, with the largest settlement obligation.<sup>19</sup> DTC calculates its liquidity needs per Participant at a legal entity level, and further aggregates these amounts for an Affiliated Family based on the

---

<sup>16</sup> "Affiliated Family" means each Participant that controls or is controlled by another Participant and each Participant that is under the common control of any Person, control meaning the direct or indirect ownership of more than 50% of the voting securities or other voting interests of any Person. See Rule 1 (definition of "Affiliated Family"), supra note 4. The "Aggregate Affiliated Family Net Debit Cap" means the sum of the Net Debit Caps for the Participants that are part of an Affiliated Family in the manner specified in the Procedures. Id. (definition of "Aggregate Affiliated Family Net Debit Cap").

<sup>17</sup> See Settlement Guide, supra note 4, at 62, 73–74.

<sup>18</sup> A SPP is Collateral that increases a Participant's Collateral Monitor, but also reduces a Participant's Net Debit Balance. See id. at 73.

<sup>19</sup> See Notice of Filing, supra note 3, at 89752.

assumption that all such affiliates may fail simultaneously.<sup>20</sup> DTC states that its two key liquidity resources are: (i) Required Participants Fund Deposits across all Participants of \$1.15 billion, and (ii) a committed line of credit facility (“LOC”) of \$1.9 billion, to which DTC may pledge Securities that are Collateral of the defaulting Participant in order to complete settlement.<sup>21</sup> Together, the Participants Fund and LOC provide DTC with \$3.05 billion in total liquidity resources.

As noted above, DTC sets both the maximum Net Debit Cap and the Aggregate Affiliated Family Net Debit Cap to an amount at or below DTC’s liquidity resources.<sup>22</sup> Currently, the Net Debit Cap for an individual Participant is \$1.80 billion. The current Aggregate Affiliated Family Net Debit Cap is \$2.85 billion, which DTC states is below DTC’s total available liquidity resources to account for the possibility that a defaulting Participant that is part of an Affiliated Family may be a lender to the LOC.<sup>23</sup>

### **III. DESCRIPTION OF THE PROPOSED RULE CHANGE**

---

<sup>20</sup> Id. at 89754.

<sup>21</sup> See Settlement Guide, supra note 4, at 74.

<sup>22</sup> To determine a Participant’s Net Debit Cap, DTC records the Participant’s three highest intraday net debit peaks over a rolling 70-Business Day period. The Participant’s average of these net debit peaks is calculated and multiplied by a factor to determine the Participant’s Net Debit Cap, but not to exceed \$1.80 billion. See id. at 73. DTC increased the maximum Net Debit Cap for a Participant to \$1.80 billion from \$1.5 billion in 2001, to reduce processing blockages relating to increased trading volumes and settlement values, with this increase facilitated by a coinciding increase to DTC’s liquidity resources. See Securities Exchange Act Release No. 44509 (July 3, 2001), 66 FR 36350 (July 11, 2001) (File No. SR-DTC-2001-09).

<sup>23</sup> See Notice of Filing, supra note 3, at 89753.

DTC proposes increasing the maximum Net Debit Cap from \$1.8 billion to \$2.15 billion. DTC states that Participants have requested that DTC raise the maximum Net Debit Cap to reduce transaction blockage and the need to make SPPs when reducing the Net Debit Balance during the processing day, allowing for less transactions in a pending status because Participants may maintain a higher Net Debit Balance.<sup>24</sup> Specifically, DTC proposes revising two references to the existing \$1.80 billion Net Debit Cap for an individual Participant in the Settlement Guide to reflect the proposed \$2.15 billion Net Debit Cap. DTC is not proposing a change to the current maximum Aggregate Affiliated Family Net Debit Cap of \$2.85 billion.

DTC states that the proposed increase better aligns the maximum Net Debit Cap for an individual Participant with DTC's available liquidity resources.<sup>25</sup> According to DTC, the proposed increase of \$350 million to the Net Debit Cap is supported by qualifying liquid resources from the \$450 million Core Fund to which all Participants contribute,<sup>26</sup> and the \$1.90 billion LOC, collectively providing \$2.35 billion in liquidity

---

<sup>24</sup> See id.

<sup>25</sup> See id.

<sup>26</sup> The aggregate Participants Fund includes four component amounts: the "Core Fund," the "Base Fund," the "Incremental Fund," and the "Liquidity Fund." The Core Fund, set by DTC at an aggregate amount of \$450 million, is comprised of the Base Fund and the Incremental Fund. The Base Fund is the sum of minimum deposits by all Participants and equals the amount that is \$7,500 times the number of Participants, at any time. The Incremental Fund is the balance of the Core Fund up to \$450 million; this is the amount that must be ratably allocated among Participants that are required to pay more than a minimum deposit, as described in the Settlement Guide. The Liquidity Fund component (set at \$700 million) applies to Participants whose Affiliated Families have Net Debit Caps that exceed \$2.15 billion. See Settlement Guide, supra note 4, at 53–56.

resources.<sup>27</sup> DTC states that this \$200 million buffer between the \$2.35 billion in liquidity resources and the proposed \$2.15 billion Net Debit Cap accounts for the possibility that a defaulted Participant may also be a lender to the LOC.<sup>28</sup>

DTC conducted an impact study for the period January 3, 2022, through December 30, 2022 (“Impact Study”).<sup>29</sup> The Impact Study determined the liquidity needs across legal entities by looking at Participants reaching 90% of the current \$1.80 billion maximum Net Debit Cap, identifying the transactions pending under Net Debit Cap limits, and any incoming SPPs. The Impact Study shows that a number of Participants currently capped at the \$1.80 billion Net Debit Cap would realize an immediate benefit from the proposed Net Debit Cap increase since the increase would enable more transactions to process without the need for a Participant to wait to reduce its intraday Net Debit Balance through Delivery Versus Payment credits or SPPs, therefore improving transaction processing.

#### **IV. DISCUSSION AND COMMISSION FINDINGS**

Section 19(b)(2)(C) of the Act<sup>30</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is

---

<sup>27</sup> See Notice of Filing, supra note 3, at 89752. DTC states that the Liquidity Fund is not included because that amount only applies to Participants whose Affiliated Families have Net Debit Caps that exceed \$2.15 billion. Id. at n.19.

<sup>28</sup> See id. at 89753. DTC explains that the \$200 million buffer is an amount greater than the contribution of any lender to the DTC LOC. Id. at n.20.

<sup>29</sup> As part of the Proposed Rule Change, DTC filed, as Exhibit 3, the Impact Study. Pursuant to 17 CFR 240.24b-2, DTC requested confidential treatment of Exhibit 3.

<sup>30</sup> 15 U.S.C. 78s(b)(2)(C).

consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After careful review of the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to DTC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act<sup>31</sup> and Rule 17Ad-22(e)(7)(i) thereunder.<sup>32</sup>

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as DTC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions.<sup>33</sup> The Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As discussed in Part II, DTC uses the Net Debit Cap as a risk management control to protect the DTC settlement system in the event of a Participant default, by limiting the settlement net debit any Participant can incur at any point during the processing day to an amount below DTC's liquidity resources. This ensures that DTC maintains sufficient financial resources to complete settlement in the event of a failure to settle by the largest Participant or Affiliated Family of Participants.

Because DTC does not process transactions that would result in a Participant exceeding its Net Debit Cap and these remain as pending until the Participant's Net Debit

---

<sup>31</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>32</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>33</sup> 15 U.S.C. 78q-1(b)(3)(F).



Balance is reduced to where it would no longer exceed it, increasing the Net Debit Cap would allow more transactions to process without the need for a Participant to wait for a reduction of its intraday Net Debit Balance. The Commission has reviewed and analyzed the filing materials, including the Impact Study, and agrees that there are a number of Participants that would immediately benefit from the proposed increase by seeing less of its transactions pend because the Participant may maintain a higher Net Debit Cap.

As discussed in Parts II and III, the proposed Net Debit Cap increase would continue to be supported by sufficient DTC qualifying liquid resources, since the proposed increase to a \$2.15 billion Net Debit Cap continues to be below the \$2.35 billion in liquidity resources that the \$450 million Core Fund and the \$1.90 billion LOC collectively provide. Because the increase in Net Debit Cap should improve transaction processing while still being covered by DTC liquidity resources in the event of default, the Commission finds that the Proposed Rule Change should enhance DTC's ability to provide prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

B. Consistency with Rule 17Ad-22(e)(7)(i)

Rule 17Ad-22(e)(7)(i) requires that, among other things, DTC establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day, and, where appropriate, intraday and multiday settlement

of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios, that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for DTC in extreme but plausible market conditions.<sup>34</sup>

As discussed in Part II, DTC monitors settlement flows and net debit obligations daily, and employs the Net Debit Cap, among other tools, to allow it to regularly test the sufficiency of liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during a settlement day to protect itself and Participants against liquidity exposure under normal and stressed market conditions. Specifically, the Net Debit Cap limits a Participant's net debit settlement obligation to an amount that can be satisfied with DTC liquidity resources at any point during DTC's processing day. As discussed in Part III, the proposed increase in Net Debit Cap from \$1.80 billion to \$2.15 billion would continue to be below DTC's available qualifying liquid resources when considering the Core Fund and LOC collectively, and it would not otherwise alter the way DTC monitors settlement flows and net debit obligations. Additionally, as discussed in Part III, the proposed increase continues to provide a buffer between the liquidity resources and the proposed \$2.15 billion Net Debit Cap that accounts for the possibility that a defaulting Participant may also be a lender to the LOC. This should allow DTC to continue to have sufficient liquid resources even when the defaulting Participant is a lender to the LOC.

For the reasons above, the Commission finds that the Proposed Rule Change is consistent with Rule 17Ad-22(e)(7)(i) under the Act<sup>35</sup> because the proposed Net Debit

---

<sup>34</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>35</sup> Id.

Cap increase would allow DTC to continue to manage liquidity risks by maintaining sufficient liquid resources to settle its payment obligations under a wide range of foreseeable stress scenarios, including the default of the participant family that would generate the largest aggregate payment obligation for DTC in extreme but plausible market conditions.

## **V. CONCLUSION**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A of the Act<sup>36</sup> and the rules and regulations promulgated thereunder.

---

<sup>36</sup> 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act<sup>37</sup> that proposed rule change SR-DTC-2023-013, be, and hereby is, APPROVED.<sup>38</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>39</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

---

<sup>37</sup> 15 U.S.C. 78s(b)(2).

<sup>38</sup> In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>39</sup> 17 CFR 200.30-3(a)(12).