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SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-78031; File No. SR-DTC-2016-004)

June 10, 2016

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change to Establish a Link With Euroclear

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 June 3, 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 DTC. DTC filed the proposed rule change pursuant to Section 19(b)(2) of the Act thereunder.[3] 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 change consists of amendments to the Rules, By-Laws and Organization Certificate of The Depository Trust Company (the "Rules")[4] in order to add new Rule 34 (EB Link) to establish a link ("EB Link") between DTC and Euroclear Bank

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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)(2).

4 Each capitalized term not otherwise defined herein has its respective meaning as set forth in the Rules, available at http://www.dtcc.com/legal/rules-and-procedures.aspx. Pursuant to a telephone call with DTC's internal counsel on June 9, 2016, staff in the Commission's Office of Clearance and Settlement added this footnote. DTC inadvertently omitted the footnote.

SA/NV ("EB") for DTC Participants that are also EB participants ("CP Participants") to use Securities held at DTC for EB Collateral Transactions (as defined below). The proposed Rule 34 specifies the Accounts, Free Deliveries, and the terms and conditions that together comprise collateral positioning ("Collateral Positioning" or "CP") for CP Participants. The proposed rule change would: (i) allow CP Participants to designate a sub-account for Collateral Positioning (a "CP Sub-Account") of Securities selected by the CP Participant (the "CP Securities") to Deliver to EB; and (ii) establish the Securities Account of EB (the "EB Account") on the books of DTC to receive and hold such CP Securities. DTC understands that EB would then credit such CP Securities to an account it maintains on its books for such CP Participant for use in transfers on the books of EB ("EB Collateral Transactions") in connection with EB's collateral management services ("EB CMS"), as described below.[5]

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

[5] On May 9, 2016, EB filed an application with the U.S. Securities and Exchange Commission ("Commission") on Form CA-1, seeking to amend its existing exemption from clearing agency registration by expanding its existing exemption to authorize EB to offer EB CMS to its U.S. participants for U.S. equities (the "EB CA-1 Amendment"). DTC understands that the EB CA-1 Amendment is necessary for EB to offer EB CMS, and consequently, the DTCC Euroclear Global Collateral Ltd. ("DEGCL") Inventory Management Service ("DEGCL IMS"), to U.S. participants for U.S. equities. Commission approval of this proposed rule change to add new Rule 34 (EB Link) would have no effect on the authority of EB pursuant to the EB CA-1 Amendment. In addition, this proposed rule change provides that it would not be implemented until the EB CA-1 Amendment is approved by the Commission.

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 add new Rule 34 (EB Link) to establish the EB Link between DTC and EB for CP Participants to use Securities held at DTC for EB Collateral Transactions. The proposed Rule 34 specifies the Accounts, Free Deliveries, and the terms and conditions that together comprise Collateral Positioning for CP Participants. The proposed rule change would: (i) allow CP Participants to designate a CP Sub-Account of CP Securities to Deliver to EB; and (ii) establish the EB Account on the books of DTC to receive and hold such CP Securities. DTC understands that EB would then credit such CP Securities to an account it maintains on its books for such CP Participant for use in EB Collateral Transactions in connection with EB CMS, as described below.

(i) Background

(a) New Regulations Require Better Access to and Management of Securities Collateral

New and enhanced regulatory requirements are leading derivative and financing counterparties to seek increased efficiency in the availability and deployment of collateral and streamlined margin processing. More specifically, the phase-in period of the Basel

III liquidity rules,[6] as well as recent regulatory changes by the Commodity Futures Trading Commission,[7] the U.S. prudential regulators,[8] European Market Infrastructure Regulation,[9] and the Basel Committee on Banking Supervision ("BCBS") and the International Organization of Securities Commissions ("IOSCO"),[10] have resulted in increased capital requirements, mandatory central clearing of more derivatives transactions, and new margining rules for bilateral trades, driving a significant increased demand for high quality collateral.

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6 Basel Committee on Banking Supervision, Basel III: A global framework for more resilient banks and the banking system, December 2010 and revised June 2011; Basel Committee on Banking Supervision, Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools, January 2013; Basel Committee on Banking Supervision, Basel III: the net stable funding ratio, October 2014, available at www.bis.org/bcbs/basel3.htm.

7 Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants, 81 FR 635 (January 6, 2016); 17 CFR parts 23 and 140.

8 Margin and Capital Requirements for Covered Swap Entities, 80 FR 74840 (November 30, 2015); 12 CFR parts 45, 237, 349, 624 and 1221. The U.S. prudential regulators include: Office of the Comptroller of the Currency - Treasury, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Farm Credit Administration, and the Federal Housing Finance Agency.

9 European Supervisory Authorities' (ESAs) Final Draft Regulatory Technical Standards on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012 (EMIR), available at https://www.eba.europa.eu/documents/10180/1398349/RTS+on+Risk+Mitigation+Techniques+for+OTC+contracts+%28JC-2016-+18%29.pdf/fb0b3387-3366-4c56-9e25-74b2a4997e1d.

10 BCBS-IOSCO, Margin requirements for non-centrally cleared derivatives (March 2015), available at http://www.bis.org/bcbs/publ/d317.htm.

These regulatory changes further include requirements for initial margin for counterparties as well as a reduction or removal of thresholds for variation margin.[11] It is expected that the inclusion of initial margin will significantly increase the amount of collateral required and will create additional margin calls by affected counterparties. In addition, it is expected that the removal or reduction of thresholds for variation margin will mean any changes in underlying valuations may trigger increased margin calls requiring market participants to hold additional collateral available for posting. Also, these regulatory changes include new restrictions on eligible collateral, requiring the use of highly liquid assets, prescribed haircuts, segregation requirements, as well as a prohibition on rehypothecation for initial margin. Given these forthcoming requirements, counterparties would need to access and deploy collateral more effectively.

(b) Proposed Rule Change Would Support DEGCL IMS

DEGCL is a United Kingdom ("UK") joint venture of DTCC and Euroclear S.A./N.V. ("Euroclear"), authorized by the Financial Conduct Authority ("FCA") in the UK as a "service company"[12] in accordance with applicable law of the UK. DEGCL was

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11 Initial margin means money, securities, or property posted by a party to a swap as performance bond to cover potential future exposures arising from changes in the market value of the position. Variation margin means a payment made by or collateral posted by a party to a swap to cover the current exposure arising from changes in the market value of the position since the trade was executed or the previous time the position was marked to market. See 17 CFR 23.700.

12 DEGCL was authorized as a "service company" by the FCA on March 29, 2016. A "service company," as defined in the FCA Handbook, Glossary, is: "[A] firm whose only permitted activities are making arrangements with a view to transactions in investments, and agreeing to carry on that regulated activity, and whose Part 4A permission: (a) incorporates a limitation substantially to the effect that the firm carry on regulated activities only with market counterparties or intermediate customers; and (b) includes requirements substantially to the effect

formed for the purpose of offering global information, record keeping, and processing services for derivatives collateral transactions and other types of financing transactions. DEGCL seeks to provide services to its users, including buy-side and sell-side financial institutions, in meeting their risk management and regulatory requirements for the holding and exchange of collateral, as required by these new regulatory requirements.

In particular, DEGCL IMS would address the increased demand for cross-border availability of securities collateral, some of which may be held at DTC. The purpose of DEGCL IMS is to offer to its users a more global view of their collateral assets and support cross-border mobility and to integrate information and record keeping for collateral use of Securities held at DTC and EB.

DEGCL IMS would be operated by EB and other entities in the Euroclear group, as the service provider to DEGCL, in accordance with appropriate agreements among these parties and in compliance with applicable regulatory requirements. There is no direct relationship between DTC and DEGCL IMS. DEGCL IMS would be offered to any financial institution that is both a DTC Participant and a participant of EB that has elected to use EB CMS ("EB Collateral Participant").

(ii) EB Link and Collateral Positioning Would Offer Global Collateral Mobility for Securities Held at DTC by CP Participants

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that the firm must not: (i) guarantee, or otherwise accept responsibility for, the performance, by a participant in arrangements made by the firm in carrying on regulated activities, of obligations undertaken by that participant in connection with those arrangements; or (ii) approve any financial promotion on behalf of any other person or any specified class of persons; or (iii) in carrying on its regulated activities, provide services otherwise than in accordance with documents (of a kind specified in the requirement) provided by the firm to the FCA." FCA Handbook, Glossary, available at https://www.handbook.fca.org.uk/handbook/glossary.

The proposed rule change would establish the EB Link between DTC and EB through which a CP Participant could Deliver Securities from its Account to its CP Sub-Account and, from there, to the EB Account at DTC. The object is for EB to then credit the Securities to an account of the CP Participant on the books of EB for use in EB CMS.

For purposes of the EB Link, EB has become a Participant of DTC,[13] in order to establish the EB Account to which CP Securities would be credited. Accordingly, EB would act in two capacities: (i) on its own behalf as a Participant of DTC, to maintain the EB Account in which CP Securities may be held, so that EB may effect book entry transfers of those Securities on its own books and records; and (ii) on behalf of each CP Participant as the representative (the "CP Representative") of such CP Participant, to provide instructions to DTC on the CP Participant's behalf for the Delivery of CP Securities from the CP Sub-Account, and to receive certain information (x) once each Business Day, identifying the CP Securities that are credited to the CP Sub-Account at the time of the report (the "CP Securities Report"), and (y) that specified CP Securities have been Delivered into or out of the CP Sub-Account, and/or that an instruction has been given to DTC to Deliver specified CP Securities out of the CP Sub-Account, as applicable (the "Delivery Information").

The CP Participant would authorize EB as its CP Representative, to provide instructions on its behalf, and to receive the CP Securities Report and Delivery

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13 EB was accepted as a Participant on February 18, 2016. Upon approval of EB as a Participant, EB, like any other Participant, signed a Participant's Agreement pursuant to which it agreed, inter alia, that the DTC Rules shall be a part of the terms and conditions of every contract or transaction that EB may make or have with DTC, including the Regulation Systems Compliance and Integrity testing requirements set forth in DTC Rule 2 (Participants and Pledgees).

Information. Both the CP Securities Report and Delivery Information would include, with respect to the CP Securities specified therein, the following information: (i) the CUSIP, ISIN, or other identification number of the CP Securities; and (ii) the number of shares or other units or principal amount of the CP Securities.

The CP Participant would instruct DTC to Deliver the CP Securities from the CP Participant's Account to its CP Sub-Account. After the CP Securities have been credited to the CP Sub-Account, EB, as CP Representative, may instruct DTC to make a Free Delivery of the appropriate CP Securities from the CP Sub-Account to the EB Account.[14] All Deliveries from the CP Participant's Account to its CP Sub-Account and from the CP Sub-Account to the EB Account would be Free Deliveries, subject to DTC risk management controls.[15]

After CP Securities have been credited to the EB Account, it would then be EB's responsibility to credit them to an account at EB maintained for the CP Participant, as an

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[14] EB would determine the eligibility of CP Securities for DEGCL IMS on the basis of the eligibility profile provided to DEGCL by its user counterparties, and subject to EB's securities eligibility rules.

[15] DTC risk management controls, including Collateral Monitor and Net Debit Cap (as defined in Rule 1, Section 1 of the DTC Rules, supra note 1 [sic]), are designed so that DTC may complete system-wide settlement notwithstanding the failure to settle of its largest Participant or affiliated family of Participants. The Collateral Monitor tests whether a Receiver has adequate collateral to secure the amount of its net debit balance. The Net Debit Cap limits the Net Debit Balance of a Participant so that it cannot exceed DTC liquidity resources for settlement. Pursuant to these controls under applicable DTC Rules and Procedures, any Delivery instruction order to a CP Sub-Account that would cause the CP Participant to exceed its Net Debit Cap (which a Free Delivery should not) or to have insufficient DTC collateral to secure its obligations to DTC (which is possible), would not be processed by DTC. CP Deliveries would be processed in the same order and with the same priority as otherwise provided in the DTC Rules and Procedures (i.e., such Deliveries would not take precedence over any other type of Delivery in the DTC system).

EB Collateral Participant. The originating CP Participant, as an EB Collateral Participant, may then choose to hold the CP Securities in an account at EB, pending use in any EB Collateral Transaction, or transfer the CP Securities on the books of EB to one or more other EB Collateral Participants in connection with EB Collateral Transactions.

EB may instruct DTC to Deliver CP Securities from the EB Account to the CP Sub-Account from which such CP Securities originated. This may occur if: (i) the CP Participant as a DEGCL IMS user changes its DEGCL IMS inventory profile in a way that renders the CP Securities credited to the EB Account no longer eligible for DEGCL IMS; (ii) the CP Participant submits a Delivery instruction for such CP Securities;[16] or (iii) the CP Securities are subject to a corporate action or tax event.[17]

EB may also instruct DTC to Deliver CP Securities from the EB Account to the Securities Account of a Participant that EB has designated as its global custodian ("EB Global Custodian").[18] The CP Securities held in the EB Account are held there exclusively for EB Collateral Transactions, so this proposed rule change would require

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16 If at any time a CP Participant has a pending instruction for Delivery of Securities that had been Delivered from its CP Sub-Account to the EB Account, DTC understands that EB would instruct DTC to Deliver those Securities from the EB Account back to the CP Sub-Account from which they originated.

17 If EB does not Deliver the CP Securities back to the CP Sub-Account of the CP Participant prior to the applicable record date for a corporate action, the corporate action would be processed by DTC in the ordinary course to EB as the Participant holding the Securities on the Record Date.

18 EB has not been a direct DTC Participant or had a Securities Account at DTC prior to this proposed EB Link; EB has held Eligible Securities only as an indirect participant through a bank that it characterizes as its "global custodian" and that is a DTC Participant. The EB Link is proposed to be established for, and expressly limited to, Collateral Positioning in connection with EB Collateral Transactions. EB may continue to use the EB Global Custodian for other EB transactions and to hold non-CP Securities indirectly at DTC.

EB to Deliver CP Securities from the EB Account to the Securities Account of the EB Global Custodian in connection with any liquidation of those CP Securities.

(iii) Proposed Rule Change

The proposed rule change would add Rule 34 to the DTC Rules, to provide for:

(i) The establishment and maintenance of a CP Sub-Account for each CP Participant;

(ii) The establishment and maintenance of the EB Account for the purpose of Collateral Positioning Deliveries;

(iii) Free Deliveries of CP Securities by a CP Participant from an Account of the CP Participant to its CP Sub-Account, and back to (A) the originating Account of the CP Participant; (B) another Non-CP Account of the CP Participant; or (C) the Account of another Participant;

(iv) Free Deliveries of CP Securities as instructed by EB, as CP Representative of the CP Participant, from the CP Sub-Account of the CP Participant to the EB Account;

(v) Free Deliveries of CP Securities as instructed by EB from the EB Account to (A) the CP Sub-Account from which such CP Securities originated, or (B) the Account of the EB Global Custodian;

(vi) Information to be provided by DTC to EB, as CP Representative of the CP Participant, specifically, the CP Securities Report and the Delivery Information;

(vii) The requirement that Deliveries provided in the proposed rule change must be Free Deliveries, and shall be subject to the terms and provisions of the DTC Rules and the Procedures applicable to the Deliveries of Securities, including DTC risk management controls; and

(viii) DTC's disclaimer of liability to: (A) any CP Participant as a result of acting on instructions from EB or providing EB the Delivery Information or the CP Securities Report pursuant to Rule 34; (B) EB as a result of acting on instructions from a CP Participant pursuant to Rule 34; (C) EB or any CP Participant as a result of any loss relating to Rule 34, unless caused directly by DTC's gross negligence, willful misconduct, or violation of Federal securities laws for which there is a private rights of action; and (D) to any third party for any reason, including without limitation, DEGCL.

(iv) Implementation Timeframe

This proposed rule change will be implemented on the later of: (i) the date of Commission approval of this filing; and (ii) the date of a Commission order approving the EB CA-1 Amendment, authorizing EB to offer EB CMS to U.S. EB Collateral Participants for U.S. equities. Participants would be advised of the implementation date through the issuance of a DTC Important Notice.

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[19] and Rule 17Ad-22(d)(7) promulgated thereunder.[20]

Section 17A(b)(3)(F) of the Act[21] requires, inter alia, that the rules of the clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in

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19 15 U.S.C. 78q-1(b)(3)(F).

20 17 CFR 240.17Ad-22(d)(7).

21 15 U.S.C. 78q-1(b)(3)(F).

the custody or control of the clearing agency or for which it is responsible. DTC understands that EB is currently an indirect participant holding DTC Eligible Securities through one or more other financial institutions that are direct Participants. By establishing a direct link between DTC and EB so that DTC Participants may more directly deploy their securities collateral for EB Collateral Transactions, the transactions would be processed with EB more efficiently, thus promoting prompt and accurate transactions and the safeguarding of securities and funds in the custody or control of DTC, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

Rule 17Ad-22(d)(7)[22] promulgated under the Act requires that a clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to evaluate the potential sources of risks that can arise when the clearing agency establishes links either cross-border or domestically to clear or settle trades, and ensure that the risks are managed prudently on an ongoing basis. In developing the proposed EB Link, DTC evaluated the risks that could arise by establishing a link with EB, a foreign central securities depository. DTC determined that because all Deliveries between CP Sub-Accounts and the EB Account would be subject to DTC risk management controls and would be limited to Free Deliveries, there should be minimum risk, in particular, no funds settlement risk, for this link. As such, DTC believes the proposed EB Link is consistent with DTC's obligations under Rule 17Ad-22(d)(7), cited above.

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

[22] 17 CFR 240.17Ad-22(d)(7).

DTC does not believe that the proposed rule change would have any impact, or impose any burden on competition because it would establish an EB Link to which any CP Participant would have access.

(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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self- regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2016-004 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-2016-004. 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-2016-004 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.[23]

Robert W. Errett
Deputy Secretary

[23] 17 CFR 200.30-3(a)(12).

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