

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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B) of the Act¹⁷ to determine whether the proposed rule change should be approved or 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 email to rule-comments@sec.gov. Please include File No. SR-FINRA-2013-016 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File No. SR-FINRA-2013-016. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 such filing also will be available for inspection and copying at the principal

office of FINRA. 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 No. SR-FINRA-2013-016 and should be submitted on or before March 22, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Kevin M. O'Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-68983; File No. SR-DTC-2012-10]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing Amendment No. 2 and Order Approving Proposed Rule Change, as Modified by Amendment No. 2, To Reduce Liquidity Risk Relating to Its Processing of Maturity and Income Presentments and Issuances of Money Market Instruments

February 25, 2013.

I. Introduction

On December 17, 2012, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-DTC-2012-10 ("Proposed Rule Change") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The Proposed Rule Change was published in the **Federal Register** on January 4, 2013.³ DTC filed Amendment No. 2 to the Proposed Rule Change on January 30, 2013.⁴ The Commission extended the period of review of the Proposed Rule Change on

February 5, 2013.⁵ The Commission received one comment on the Proposed Rule Change.⁶ This publication serves as notice of filing Amendment No. 2 and order approving the Proposed Rule Change, as modified by Amendment No. 2.

II. Analysis

A. Description of MMI Processing and Proposed Rule Change

DTC filed the Proposed Rule Change to permit it to make rule changes designed to reduce liquidity risk relating to DTC's processing of maturity and income presentments ("Maturity Obligations") and issuances of money market instruments ("MMIs"), as discussed below.

MMIs are settled at DTC on a trade-for-trade basis. Issuers of MMIs that are not direct members of DTC enlist banks ("Issuing/Paying Agent" or "IPA") to issue MMIs to broker-dealers, who in turn sell the MMIs to MMI investors. Debt issuance instructions are transmitted to DTC by the IPA, which triggers DTC crediting the IPA's DTC account and creating a deliver order to the broker-dealers' accounts on behalf of the investors.

Maturity Obligations are initiated automatically by DTC early each morning for MMIs maturing that day. DTC debits the amount of the Maturity Obligations to the appropriate IPA's account and credits the same amount to the appropriate broker-dealer and custodian accounts. The debits and credits are conditional until final settlement at the end of the day. According to DTC, IPAs do not have a legal obligation to honor maturing MMIs if they have not received funding from the issuer.

According to DTC, the common source of funding for Maturity Obligations is new issuances of MMIs in the same acronym by the same issuer on the day the Maturity Obligations are due. In a situation where new MMI issuances exceed the Maturity Obligations, the issuer would have no net funds payment due to the IPA on that day. However, because Maturity Obligations are processed and debited from IPA accounts automatically, IPAs currently incur credit risk if the issuers do not issue MMIs that exceed the

¹⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Release No. 34-68548 (Dec. 28, 2012), 78 FR 795 (Jan. 4, 2013). DTC also filed an advance notice pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 relating to these changes. Release No. 34-68690 (Jan. 18, 2013), 78 FR 5516 (Jan. 25, 2013).

⁴ DTC filed Amendment No. 1 to the Proposed Rule Change on January 29, 2013, and withdrew it because of technical errors. DTC filed Amendment No. 2 to: (i) Correct the technical errors in Amendment No. 1 and (ii) correct the text of DTC's Settlement Service Guide related to the Proposed Rule Change by adding a sentence to clarify the change as stated in the Proposed Rule Change and correcting a grammatical error therein.

⁵ Release No. 34-68834 (Feb. 5, 2013), 78 FR 9762 (Feb. 11, 2013).

⁶ See Comment from Karen Jackson dated December 30, 2012, <http://sec.gov/comments/sr-dtc-2012-10/dtc201210-1.htm>. The comment discusses the ability of individuals to withdraw money from money market accounts, which is not implicated by the proposed rule change.

¹⁷ 15 U.S.C. 78s(b)(2)(B).

Maturity Obligations.⁷ Because IPAs do not have a legal obligation to honor maturing MMIs in the absence of funding from the issuer, IPAs may communicate to DTC an Issuer Failure/Refusal to Pay (“RTP”) for any issuer acronym up to 3:00 p.m. ET on the day of the affected Maturity Obligation. Such an instruction causes DTC, pursuant to its Rules, to reverse all transactions related to that issuer’s acronym, including Maturity Obligations and any new MMI issuances, posing a potential for systemic risk since the reversals may override DTC’s risk management controls such as the Collateral Monitor (“CM”)⁸ and net debit cap (“Net Debit Cap,” collectively with CM, “Settlement Risk Controls”).⁹

DTC currently withholds intraday from each MMI member the largest provisional net credit (“LPNC”) of a single issuer’s acronym for purposes of calculating the member’s position in relation to the Settlement Risk Controls. DTC believes that the LPNC control helps protect DTC against either (i) the single largest issuer failure on a business day, or (ii) multiple failures on a business day that, taken together, do not exceed the largest provisional net credit.

Recent market events have increased DTC’s awareness of the possibility of multiple simultaneous MMI issuer failures. Multiple simultaneous MMI issuer failures may cause more IPAs on a given day to communicate an RTP to DTC, which could increase the amount of the reversal that could override the DTC Settlement Risk Controls. As a result, DTC is increasing the LPNC

withholding to the two largest net credits (on an acronym basis). In order to alleviate any settlement blockage that may occur as a result of withholding the two largest LPNCs and to promote settlement finality, DTC will no longer process an RTP initiated by an IPA that serves as both an issuing agent and a paying agent in the same acronym on the same day when new MMI issuances in an acronym exceed, in dollar value, the Maturity Obligations in the same acronym on the same day and the receiving members’ Settlement Risk Controls permit completion of the transaction. As a result, DTC will remove the LPNC withholding with respect to such acronyms at the point in time when it eliminates the IPA’s option to initiate an RTP.

B. Discussion

Section 17A(b)(3)(F) of the Act requires that, among other things, “[t]he rules of the clearing agency are 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 the custody or control of the clearing agency or for which it is responsible.”¹⁰ Furthermore, Commission Rules 17Ad-22(d)(11) regarding Default Procedures and 17Ad-22(d)(12) regarding Timing of Settlement Finality, both adopted as part of the Clearing Agency Standards,¹¹ require that clearing agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to establish default procedures that ensure that the clearing agency can take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default, and require that intraday or real-time finality be provided where necessary to reduce risks, respectively.¹²

Here, as described in detail above, DTC’s proposed rule change to increase the LPNC from one to two largest provisional credits should, generally, help further safeguard the securities and settlement process as a whole, and, more specifically, help DTC better contain losses and liquidity pressures, yet continue to meet its obligations; meanwhile, DTC’s proposed rule change to no longer process RTPs for an acronym when the described circumstances are met and, then, remove the LPNC for the same acronym when an RTP is no longer viable should

improve the prompt and accurate clearance and settlement of securities (i.e., settlement finality), thus reducing DTC’s risk. Since RTPs will no longer be processed when new issuances in an acronym exceed Maturity Obligations in the same acronym in the same day, removing the LPNC control in these cases should not increase DTC’s exposure to MMI issuer credit risk.

III. Conclusion

On the basis of the foregoing, the Commission finds the Proposed Rule Change, as modified by Amendment No. 2, consistent with the requirements of the Act, particularly with the requirements of Section 17A of the Act,¹³ and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹⁴ that the proposed rule change SR-DTC-2012-10, as modified by Amendment No. 2, be and hereby is APPROVED¹⁵ as of the date of this order or the date of the “Notice of Filing Amendment No. 1 and No Objection to Advance Notice Filing, as Modified by Amendment No. 1, to Reduce Liquidity Risk Relating to [DTC’s] Processing of Maturity and Income Presentments and Issuances of Money Market Instruments,” SR-DTC-2012-810, whichever is later.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Kevin M. O’Neill,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-68984; File No. SR-PHLX-2013-17]

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Routing Fees to C2

February 25, 2013.

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 February 12, 2013, NASDAQ OMX PHLX LLC

¹³ 15 U.S.C. 78q-1.

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ In approving the Proposed Rule Change, the Commission considered the proposal’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

⁷ DTC guidelines suggest that issuers fund their net debit obligations to the IPA by 1:00 p.m. ET to alleviate this credit risk.

⁸ A DTC “Participant” is a regulated institution that is eligible to use and uses DTC’s services. See DTC Participant Handbook (Sept. 2011). DTC tracks collateral in a Participant’s DTC account through the CM. At all times, the CM reflects the amount by which the collateral value in the account exceeds the net debit balance in the account. When processing a transaction, DTC verifies that the CM of each of the deliverer and receiver will not become negative when the transaction is processed. If the transaction would cause either party to have a negative CM, the transaction will recycle until the deficient account has sufficient collateral to proceed or until the applicable cutoff occurs. See *id.*

⁹ The Net Debit Cap control is designed so that DTC may complete settlement even if a Participant fails to settle. Before completing a transaction in which a Participant is the receiver, DTC calculates the effect the transaction would have on such Participant’s account, and determines whether any resulting net debit balance would exceed the Participant’s net debit cap. Any transaction that would cause the net debit balance to exceed the net debit cap is placed on a pending (recycling) queue until the net debit cap will not be exceeded by processing the transaction. See DTC Participant Handbook (Sept. 2011).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ Release No. 34-68080 (Oct. 22, 2012), 77 FR 66219 (Nov. 2, 2012).

¹² *Id.* at 131-139.