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Page 1 of \* 35

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. \* SR 2023 - \* 801

Amendment No. (req. for Amendments \*)

Filing by The Depository Trust Company

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934  
Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Raise Prefunded Liquidity Resources Through the Periodic Issuance and Private Placement of Senior Notes

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* [Redacted] Last Name \* [Redacted]

Title \* [Redacted]

E-mail \* RuleFilingAdmin@dtcc.com

Telephone \* [Redacted] Fax [Redacted]

**Signature**

Pursuant to the requirements of the Securities Exchange of 1934, The Depository Trust Company has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 08/15/2023

(Title \*)

By [Redacted]

[Redacted]

(Name \*)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Date: 2023.08.14  
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Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information \***

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AN Narrative - DTC Debt Issuance - F

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies \***

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AN Exh 1A - DTC Debt Issuance - Fin

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit 3 - (Redacted) - 4 pages.docx

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of Advance Notice**

(a) This advance notice is filed by The Depository Trust Company (“DTC”) in connection with a proposal to raise prefunded liquidity resources through the periodic issuance and private placement of senior notes (“Debt Issuance”). The proceeds from the Debt Issuance would supplement DTC’s existing default liquidity risk management resources.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Clearing Agency**

(a) The proposal was approved by DTC’s Board of Directors at its meeting held on February 10, 2021.

**3. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

Not applicable.

**4. Clearing Agency’s Statement on Burden on Competition**

Not applicable.

**5. Clearing Agency’s Statement on Comments on the Advance Notice Received from Members, Participants, or Others**

Written comments on the advance notice have not been solicited or received. DTC will notify the Securities and Exchange Commission (“Commission”) of any written comments received by DTC.

**6. Extension of Time Period for Commission Action**

Not applicable.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Exchange Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act**

*Description of Proposed Change*

DTC is proposing to raise prefunded liquidity through the periodic issuance and private placement of senior notes to qualified institutional investors in an aggregate amount not to exceed \$5 billion, as described in greater detail below. The proceeds of the Debt Issuance would supplement DTC's qualifying liquidity resources, which are described in the Clearing Agency Liquidity Risk Management Framework ("Framework")<sup>1</sup> and include cash deposits to its Participants Fund and cash that would be obtained by drawing upon DTC's committed 364-day credit facility with a consortium of banks ("Line of Credit").<sup>2</sup>

More precisely, while the specific terms of any future Debt Issuance would depend on a number of factors, as described in greater detail below, DTC is requesting the authority to use the proceeds of any Debt Issuance as default liquidity.<sup>3</sup>

DTC, along with its affiliates, National Securities Clearing Corporation ("NSCC") and Fixed Income Clearing Corporation ("FICC," and, together with NSCC and DTC, the "Clearing Agencies"), maintain the Framework which sets forth the manner in which DTC measures, monitors and manages

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<sup>1</sup> See Securities Exchange Act Release Nos. 82377 (Dec. 21, 2017), 82 FR 61617 (Dec. 28, 2017) (SR-DTC-2017-004; SR-FICC-2017-008; SR-NSCC-2017-005). Following the completion of the initial issuance and private placement of senior notes, the Clearing Agencies would file a proposed rule change to amend the Framework to include the proceeds of the Debt Issuance as an additional qualifying liquidity resource of DTC.

<sup>2</sup> Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC ("Rules") available at [www.dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf). See also Securities Exchange Act Release No. 80605 (May 5, 2017), 82 FR 21850 (May 10, 2017) (SR-DTC-2017-802; SR-NSCC-2017-802).

<sup>3</sup> In addition to default liquidity, DTC may use the proceeds of a Debt Issuance to prepay a prior Debt Issuance before maturity but would not use the proceeds for any other purpose. DTC filed as a confidential exhibit to this filing a sample term sheet that may be indicative of the possible terms of any future Debt Issuance.

the liquidity risks that arise in or are borne by it.<sup>4</sup> DTC's liquidity risk management strategy and tools are designed to maintain sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant, or affiliated family of Participants, with the largest settlement obligation.<sup>5</sup>

The proposed Debt Issuance would provide DTC with an additional source of default liquidity, which would allow it to diversify its sources of default liquidity and mitigate risks to DTC that it is unable to secure default liquidity resources in an amount necessary to meet its liquidity needs. DTC utilizes certain rules-based tools, including the Net Debit Cap and the Collateral Monitor, to manage the liquidity risks its Participants' present to it.<sup>6</sup> These two controls work together to protect the DTC settlement system in the event of a Participant default. The Collateral Monitor requires net debit settlement obligations, as they accrue intraday, to be fully collateralized and the Net Debit Cap limits the amount of any Participant's net debit settlement obligation to an amount that can be satisfied with DTC's default liquidity resources. As stated above, DTC currently maintains two key default liquidity resources to draw upon in the event of a Participant default: cash deposits to its Participants Fund and cash that would be obtained by drawing upon the Line of Credit.<sup>7</sup> By allowing DTC to diversify its sources of default liquidity, the proposal would mitigate the risk, for example, that DTC is unable to renew its Line of Credit at the targeted amount by providing DTC with an alternative and supplemental source of default liquidity.

*Terms of the Debt Issuance.* DTC does not have immediate plans to initiate the Debt Issuance. The timing of a Debt Issuance would depend on a number of factors, including, for example, market conditions for the issuance of senior notes and the timing of any changes to DTC's liquidity needs. However, when it determines to do so it would engage a trustee and underwriting banks to issue the senior notes to qualified institutional investors through a private placement and offering in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933.<sup>8</sup> DTC would be party to certain transaction documents in connection

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<sup>4</sup> Supra note 1. Each of the Clearing Agencies is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, which operates on a shared service model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides relevant services to the Clearing Agencies.

<sup>5</sup> Id.

<sup>6</sup> A description of the calculation of each Participant's Net Debit Cap and Collateral Monitor is available in the Settlement Service Guide. See DTC Settlement Service Guide, available at [www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf).

<sup>7</sup> Under DTC Rule 10 (Discretionary Termination) and DTC Rule 11 (Mandatory Termination), a Participant will be in default if it fails to pay any amount due to DTC within specified timeframes, including the failure to fund a settlement obligation, to pay required deposits to the Participants Fund or to pay adequate assurances to DTC within the required timeframes. See supra note 2.

<sup>8</sup> 15 U.S.C. 77d(a)(2).

with each issuance and private placement, including an indenture with the trustee and purchase agreements. The purchase agreements would each be based on the standard form of dealer agreement for similar debt issuances, which is published by the Securities Industry and Financial Markets Association.

While the anticipated material terms and conditions of a future Debt Issuance are summarized below, the actual terms of a future Debt Issuance would depend on a number of factors, including DTC's liquidity needs and the debt market conditions at the time of issuance. Therefore, with the exception of the authorized aggregate amount that DTC may issue of \$5 billion, the anticipated terms summarized below are reasonable estimates, but may not reflect the actual terms of a future Debt Issuance.

DTC is proposing to issue up to an aggregate amount of \$5 billion in senior notes, with an expected average amount issued and outstanding at any time of approximately \$2-3 billion, as DTC deems reasonable, or as necessitated by liquidity needs. While, at the time of this filing, DTC would not need to issue up to the aggregate amount of \$5 billion based on its current liquidity requirements, DTC believes that is advisable to authorize up to this aggregate amount in order to help manage its potential future liquidity needs and the potential risk that it is not able to obtain the requisite amounts from its other sources of default liquidity.

DTC estimates that each issuance would be in an amount between approximately \$250 million and \$1.5 billion, with an initial issuance expected to be between approximately \$500 million and \$1 billion.<sup>9</sup> DTC believes an initial issuance should be at an amount that would attract the attention of potential investors. Therefore, DTC believes that between approximately \$500 million and \$1 billion would be an appropriate amount for the initial issuance for this reason.

The senior notes would be represented by unsecured, unsubordinated and non-convertible medium-term and long-term global notes held in the name of DTC (as the central securities depository) or its nominee, Cede & Co. The notes would be issued and transferred only through the book-entry system of DTC. The senior notes would be interest bearing at either fixed or floating interest rates that are set at market rates customary for such type of debt and reflective of the creditworthiness of DTC.

DTC expects the average maturity of the senior notes issued under the Debt Issuance would be no shorter than approximately two years and no longer than approximately ten years, which are the typical lengths of medium-term and long-term debt. DTC does not believe maturities over ten years would be suitable as debt with longer maturities are generally more expensive to issue and may present higher risks related to interest rates. DTC would time each debt issuance and stagger maturity dates of each issuance in order to ladder the maturities. DTC would have the ability to make use of optional features to redeem the issued senior notes, in whole or in part, at any time prior to the maturity date of notes. More specifically, DTC would

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<sup>9</sup> If market conditions at the time of the inaugural issuance are favorable, DTC may issue an initial aggregate amount of more than \$1 billion.



have the option to prepay any amount of principal owed on the issued senior notes before such payment is due, *i.e.*, before the maturity date.

DTC would hold the proceeds from the Debt Issuance in either its cash deposit account at the Federal Reserve Bank of New York (“FRBNY”) or in accounts at other creditworthy financial institutions in accordance with the Clearing Agency Investment Policy.<sup>10</sup> These amounts would be available to draw to complete settlement as needed.

*DTC Liquidity Risk Management.* DTC’s liquidity needs for settlement are driven by protecting DTC against the possibility that a Participant may fail to pay its settlement obligations on a business day. The tools available to DTC under its Rules (*e.g.*, the Participants Fund, Net Debit Cap and Collateral Monitor) 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.<sup>11</sup> DTC calculates its liquidity needs per Participant (at a legal entity level) and further aggregates these amounts at a family level (that is, including all affiliated Participants, based on the assumption that all such affiliates may fail simultaneously). In this regard, DTC monitors settlement flows and net-debit obligations on a daily basis, determines the appropriateness of each Participant’s Net Debit Cap and monitors net settlement activity.

As noted above, the Framework describes DTC’s liquidity risk management strategy, which is designed to maintain sufficient liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant, or affiliated family of Participants, with the largest settlement obligation.<sup>12</sup> The Framework also describes how DTC meets its requirement to hold qualifying liquid resources, as such term is defined in Rule 17Ad-22(a)(14) under the Securities Exchange Act of 1934 (“Act”),<sup>13</sup> sufficient to meet its minimum liquidity resource requirement in each relevant currency for which it has payment obligations owed to its Participants. DTC considers each of its existing default liquidity resources to be qualifying liquid resources, and the proceeds from the Debt Issuance would also be default liquidity that is considered a qualifying liquid resource.

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<sup>10</sup> See Securities Exchange Act Release Nos. 79528 (Dec. 12, 2016), 81 FR 91232 (Dec. 16, 2016) (SR-DTC-2016-007, SR-FICC-2016-005, SR-NSCC-2016-003); 84949 (Dec. 21, 2018), 83 FR 67779 (Dec. 31, 2018) (SR-DTC-2018-012, SR-FICC-2018-014, SR-NSCC-2018-013). Following the issuance of a Notice of No Objection by the Commission of this proposal, the Clearing Agencies would file a proposed rule change to amend the Clearing Agency Investment Policy to include the proceeds as default liquidity funds, within the definition of “Investable Funds,” as such term is defined therein, and provide that such amounts would be held in bank deposits at eligible commercial banks or at DTC’s cash deposit account at the FRBNY.

<sup>11</sup> Supra note 1.

<sup>12</sup> Supra note 2.

<sup>13</sup> 17 CFR 240.17Ad-22(a)(14).

The proceeds from the Debt Issuance would provide DTC with additional, prefunded, and readily available qualifying liquid resources to be used to complete system-wide settlement if a Participant defaults. For DTC, the Participants Fund, Net Debit Cap and Collateral Monitor tools work together to limit potential liquidity requirements in default scenarios both on an intra-day and end-of-day basis. So, while DTC's current available liquidity resources are sufficient to satisfy the single-largest family default under stressed but plausible conditions, the Debt Issuance would allow DTC to diversify its sources of default liquidity and mitigate risks to DTC that it is unable to secure default liquidity resources in an amount necessary to meet its liquidity needs. More specifically, the proposal would provide DTC with the flexibility to reduce its reliance on the Line of Credit, which is renewed annually and dependent on continued lender interest and meet any increased liquidity needs it may face in the future. As a source of prefunded, default liquidity, the Debt Issuance would provide additional certainty, stability, and safety to DTC, its Participants, and the U.S. markets that it serves.

By diversifying DTC's sources of qualifying liquid resources, the Debt Issuance could also mitigate concentration risks related to its liquidity providers. More specifically, while DTC would not limit the potential qualified institutional investors that purchase senior notes and, therefore, is not able to ensure that the Debt Issuance would reduce concentration risk, the types of entities who typically invest in senior notes (for example, insurance companies, asset managers and pension funds) are generally not Participants of DTC or lenders under the Line of Credit. Therefore, the prospective investors in the senior notes are not expected to be the same firms that currently provide any material amount of default liquidity resources to DTC either through the Line of Credit, or as DTC Participants. In this way, the proposed Debt Issuance would reduce the concentration risk related to its liquidity providers, by reducing the likelihood that an impairment of a liquidity provider to perform under one qualifying liquid resource would impact DTC's ability to fully access its other qualifying liquid resources.

#### *Anticipated Effect on and Management of Risk*

In connection with its role as a central securities depository ("CSD"), DTC provides for both the settlement of book-entry transfer and pledge of interests in eligible deposited securities and net funds settlement. A financially strong and well-managed, well-designed CSD, with appropriate risk management arrangements, can reduce the risk faced by participants, contributing to the goal of systemic financial stability. In order to sufficiently perform this role, it is critical that DTC has access to adequate liquidity resources to enable it to complete system-wide settlement every business day, including following a Participant default. DTC believes that the overall impact of the proposed Debt Issuance on risks presented by DTC would be to reduce the liquidity risks associated with DTC's net settlement obligations by providing it with an additional source of liquidity to complete system-wide settlement in the event of a Participant default. DTC further believes that a reduction in its liquidity risk would reduce systemic risk and would have a positive impact on the safety and soundness of the wider financial system.

While the proposed Debt Issuance, like any liquidity resource, would involve certain risks, most of these risks are standard in any debt issuance. One risk associated with the proposed Debt Issuance would be the risk that DTC does not have sufficient funds to repay issued senior notes when the notes mature. DTC believes that this risk is extremely remote, as the proceeds of the Debt Issuance would be used only in the event of a Participant default, and DTC would



replenish that cash, as it would replenish any of its liquidity resources that are used to facilitate settlement in the event of a Participant default, with the proceeds of the close out of that defaulted Participant's portfolio. This notwithstanding, in the event that proceeds from the close out are insufficient to fully repay a liquidity borrowing, then DTC would look to its loss waterfall to repay any outstanding liquidity borrowings.<sup>14</sup> DTC would further mitigate this risk through the timing of each debt issuance and by staggering the maturity dates of the issued senior notes in a way that would provide DTC with time to complete the close out of a defaulted Participant's portfolio. A second risk is that DTC may be unable to issue new senior notes as issued notes mature due to, for example, stressed markets at the time the issued debt matures. This risk is mitigated by the fact that DTC maintains a number of different default liquidity resources, described above, and would not depend on the Debt Issuance as its sole source of liquidity.

DTC may be exposed to interest rate risk, which is the risk that a change in interest rates could cause an increase to the net cost of carry of the Debt Issuance.<sup>15</sup> DTC would mitigate this risk by issuing senior notes at different maturities and at both fixed interest rates and floating interest rates. The interest rates for the senior notes issued at floating interest rates would generally correlate with the rates on investments of those proceeds<sup>16</sup> and would be expected to result in a largely stable net spread between the borrowing interest rate and the investment interest rate, mitigating this risk. For the senior notes issued with a fixed interest rate, DTC would consider interest rate swaps as a method to mitigate interest rate risk, depending on market environment at that time.

DTC could also face a related financial risk that the expense of a Debt Issuance exceeds DTC's income and may have a negative impact on DTC's financial health or its creditworthiness. DTC would mitigate this risk by evaluating the expected net cost of carry (discussed above) of a Debt Issuance prior to issuing any debt, and if the financing costs for the issuance of senior notes increase, such that it is not financially advisable to issue additional senior notes, then DTC may determine to use its alternative liquidity resources to meet its liquidity needs during those market conditions.

DTC believes that the significant systemic risk mitigation benefits of providing DTC with additional, prefunded liquidity resources outweigh these risks.

*Consistency with Clearing Supervision Act*

DTC believes that that proposal would be consistent with Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act"), specifically with the risk management

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<sup>14</sup> See Rule 4 (Participants Fund and Participants Investment) of the Rules, supra note 2.

<sup>15</sup> The "net cost of carry" generally refers to the difference between the interest earned on the invested proceeds of an issuance and the interest rate paid on that issuance.

<sup>16</sup> See supra note 9.

objectives and principles of Section 802(b)(1), and with certain of the risk management standards adopted by the Commission pursuant to Section 805(a)(2), for the reasons described below.<sup>17</sup>

*(i) Consistency with Section 805(b)(1) of the Clearing Supervision Act*

Although the Clearing Supervision Act does not specify a standard of review for an advance notice, its stated purpose is instructive: to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.<sup>18</sup>

DTC believes the proposal is consistent with Section 805(b)(1) of the Clearing Supervision Act because it would support the mitigation of systemic risk in the financial system and promote financial stability in the event of a Participant default by strengthening DTC's liquidity. The proposed Debt Issuance is designed to reduce DTC's liquidity risks by providing it with an additional source of liquidity to complete system-wide settlement in the event of a Participant default. By supplementing DTC's existing default liquidity resources with prefunded liquidity, the proposal would contribute to DTC's goal of assuring that DTC has adequate liquidity resources to meet its settlement obligations notwithstanding the default of any of its Participants.

In its critical role as a CSD, DTC provides for both the settlement of book-entry transfer and pledge of interests in eligible deposited securities and net funds settlement. In order to sufficiently perform this role, it is critical that DTC has access to adequate liquidity resources to enable it to complete system-wide settlement every business day, including following a Participant default. Therefore, a reduction in DTC's liquidity risk would reduce systemic risk and would have a positive impact on the safety and soundness of the wider financial system.

As a result, DTC believes the proposed Debt Issuance would be consistent with the objectives and principles of Section 805(b)(1) of the Clearing Supervision Act, which specify the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks and support of the stability of the broader financial system by, among other things, strengthening the liquidity of systemically important financial market utilities, such as DTC.

*(ii) Consistency with Rule 17Ad-22(e)(7)(i) and (ii) under the Act*

Section 805(a)(2) of the Clearing Supervision Act authorizes the Commission to prescribe risk management standards for the payment, clearing and settlement activities of designated clearing entities, like DTC, and financial institutions engaged in designated activities for which the Commission is the supervisory agency or the appropriate financial regulator.<sup>19</sup> The Commission has accordingly adopted risk management standards under Section 805(a)(2) of the

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<sup>17</sup> 12 U.S.C. 5464(a)(2) and (b)(1).

<sup>18</sup> 12 U.S.C. 5464(b)(1).

<sup>19</sup> 12 U.S.C. 5464(a)(2).

Clearing Supervision Act<sup>20</sup> and Section 17A of the Act (“Covered Clearing Agency Standards”).<sup>21</sup> The Covered Clearing Agency Standards require covered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.<sup>22</sup>

DTC believes that the proposed Debt Issuance is consistent with Rule 17Ad-22(e)(7)(i) and (ii) of the Covered Clearing Agency Standards for the reasons described below.<sup>23</sup>

Rule 17Ad-22(e)(7)(i) under the Act requires that DTC establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain 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 the covered clearing agency in extreme but plausible market conditions.<sup>24</sup> Rule 17Ad-22(e)(7)(ii) under the Act requires that DTC establish, implement, maintain and enforce written policies and procedures reasonably designed to hold qualifying liquid resources sufficient to meet the minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i) in each relevant currency for which DTC has payment obligations owed to its Participants.<sup>25</sup>

As described above, the proposed Debt Issuance would provide DTC with an additional resource of prefunded default liquidity, which it would use to complete system-wide settlement every business day, including following a Participant default. The proceeds of the Debt Issuance would be cash held by DTC at either its cash deposit account at the FRBNY or at a creditworthy commercial bank, pursuant to the Clearing Agency Investment Policy.<sup>26</sup> Therefore, the proceeds of the Debt Issuance would be considered a qualifying liquid resource, as defined by Rule 17Ad-22(a)(14).<sup>27</sup> As such, the proposed Debt Issuance would support DTC’s ability to hold sufficient

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<sup>20</sup> Id.

<sup>21</sup> 17 CFR 240.17Ad-22(e).

<sup>22</sup> Id.

<sup>23</sup> 17 CFR 240.17Ad-22(e)(7)(i), (ii).

<sup>24</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>25</sup> 17 CFR 240.17Ad-22(e)(7)(ii). For purposes of this Rule, “qualifying liquid resources” are defined in Rule 17Ad-22(a)(14) as including, in part, cash held either at the central bank of issue or at creditworthy commercial banks. 17 CFR 240.17Ad-22(a)(14).

<sup>26</sup> Supra note 10.

<sup>27</sup> 17 CFR 240.17Ad-22(a)(14).

qualifying liquid resources to meet its minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i).<sup>28</sup>

For these reasons, DTC believes the proposal would support DTC's compliance with Rule 17Ad-22(e)(7)(i) and (ii) by providing it with an additional qualifying liquid resource.<sup>29</sup>

## 11. Exhibits

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of Advance Notice for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Sample Debt Issuance Term Sheet. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3 pursuant to 17 CFR 240.24b-2 being requested.***

Exhibit 4 – Not applicable.

Exhibit 5 – Not applicable.

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<sup>28</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>29</sup> 17 CFR 240.17Ad-22(e)(7)(i), (ii).

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-DTC-2023-801)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Advance Notice to Raise Prefunded Liquidity Resources Through the Periodic Issuance and Private Placement of Senior Notes

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)<sup>1</sup> and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 (“Act”),<sup>2</sup> notice is hereby given that on August \_\_, 2023, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the advance notice SR-DTC-2023-801 (“Advance Notice”) as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the Advance Notice from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Advance Notice

This advance notice is filed by DTC in connection with a proposal to raise prefunded liquidity resources through the periodic issuance and private placement of senior notes (“Debt Issuance”). The proceeds from the Debt Issuance would supplement

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<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

DTC's existing default liquidity risk management resources, as described in greater detail below.<sup>3</sup>

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the Advance Notice and discussed any comments it received on the Advance Notice. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A and B below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants, or Others

Written comments on the advance notice have not been solicited or received.

DTC will notify the Commission of any written comments received by DTC.

(B) Advance Notice Filed Pursuant to Section 806(e) of the Clearing Supervision Act

*Description of Proposed Change*

DTC is proposing to raise prefunded liquidity through the periodic issuance and private placement of senior notes to qualified institutional investors in an aggregate amount not to exceed \$5 billion, as described in greater detail below. The proceeds of the Debt Issuance would supplement DTC's qualifying liquidity resources, which are described in the Clearing Agency Liquidity Risk Management Framework

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<sup>3</sup> Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC ("Rules") available at [www.dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf).



(“Framework”)<sup>4</sup> and include cash deposits to its Participants Fund and cash that would be obtained by drawing upon DTC’s committed 364-day credit facility with a consortium of banks (“Line of Credit”).<sup>5</sup>

More precisely, while the specific terms of any future Debt Issuance would depend on a number of factors, as described in greater detail below, DTC is requesting the authority to use the proceeds of any Debt Issuance as default liquidity.<sup>6</sup>

DTC, along with its affiliates, National Securities Clearing Corporation (“NSCC”) and Fixed Income Clearing Corporation (“FICC,” and, together with NSCC and DTC, the “Clearing Agencies”), maintain the Framework which sets forth the manner in which DTC measures, monitors and manages the liquidity risks that arise in or are borne by it.<sup>7</sup> DTC’s liquidity risk management strategy and tools are designed to

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<sup>4</sup> See Securities Exchange Act Release Nos. 82377 (Dec. 21, 2017), 82 FR 61617 (Dec. 28, 2017) (SR-DTC-2017-004; SR-FICC-2017-008; SR-NSCC-2017-005). Following the completion of the initial issuance and private placement of senior notes, the Clearing Agencies would file a proposed rule change to amend the Framework to include the proceeds of the Debt Issuance as an additional qualifying liquidity resource of DTC.

<sup>5</sup> Capitalized terms not defined herein are defined in the Rules, By-Laws and Organization Certificate of DTC (“Rules”) available at [www.dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf). See also Securities Exchange Act Release No. 80605 (May 5, 2017), 82 FR 21850 (May 10, 2017) (SR-DTC-2017-802; SR-NSCC-2017-802).

<sup>6</sup> In addition to default liquidity, DTC may use the proceeds of a Debt Issuance to prepay a prior Debt Issuance before maturity but would not use the proceeds for any other purpose. DTC filed as a confidential exhibit to this filing a sample term sheet that may be indicative of the possible terms of any future Debt Issuance.

<sup>7</sup> Supra note 4. Each of the Clearing Agencies is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, which operates on a shared service model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany

maintain sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant, or affiliated family of Participants, with the largest settlement obligation.<sup>8</sup>

The proposed Debt Issuance would provide DTC with an additional source of default liquidity, which would allow it to diversify its sources of default liquidity and mitigate risks to DTC that it is unable to secure default liquidity resources in an amount necessary to meet its liquidity needs. DTC utilizes certain rules-based tools, including the Net Debit Cap and the Collateral Monitor, to manage the liquidity risks its Participants' present to it.<sup>9</sup> These two controls work together to protect the DTC settlement system in the event of a Participant default. The Collateral Monitor requires net debit settlement obligations, as they accrue intraday, to be fully collateralized and the Net Debit Cap limits the amount of any Participant's net debit settlement obligation to an amount that can be satisfied with DTC's default liquidity resources. As stated above, DTC currently maintains two key default liquidity resources to draw upon in the event of a Participant default: cash deposits to its Participants Fund and cash that would be obtained by drawing upon the Line of Credit.<sup>10</sup> By allowing DTC to diversify its sources of default liquidity,

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agreements under which it is generally DTCC that provides relevant services to the Clearing Agencies.

<sup>8</sup> Id.

<sup>9</sup> A description of the calculation of each Participant's Net Debit Cap and Collateral Monitor is available in the Settlement Service Guide. See DTC Settlement Service Guide, available at [www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf).

<sup>10</sup> Under DTC Rule 10 (Discretionary Termination) and DTC Rule 11 (Mandatory Termination), a Participant will be in default if it fails to pay any amount due to DTC within specified timeframes, including the failure to fund a settlement

the proposal would mitigate the risk, for example, that DTC is unable to renew its Line of Credit at the targeted amount by providing DTC with an alternative and supplemental source of default liquidity.

*Terms of the Debt Issuance.* DTC does not have immediate plans to initiate the Debt Issuance. The timing of a Debt Issuance would depend on a number of factors, including, for example, market conditions for the issuance of senior notes and the timing of any changes to DTC's liquidity needs. However, when it determines to do so it would engage a trustee and underwriting banks to issue the senior notes to qualified institutional investors through a private placement and offering in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933.<sup>11</sup> DTC would be party to certain transaction documents in connection with each issuance and private placement, including an indenture with the trustee and purchase agreements. The purchase agreements would each be based on the standard form of dealer agreement for similar debt issuances, which is published by the Securities Industry and Financial Markets Association.

While the anticipated material terms and conditions of a future Debt Issuance are summarized below, the actual terms of a future Debt Issuance would depend on a number of factors, including DTC's liquidity needs and the debt market conditions at the time of issuance. Therefore, with the exception of the authorized aggregate amount that DTC

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obligation, to pay required deposits to the Participants Fund or to pay adequate assurances to DTC within the required timeframes. See supra note 5.

<sup>11</sup> 15 U.S.C. 77d(a)(2).

may issue of \$5 billion, the anticipated terms summarized below are reasonable estimates, but may not reflect the actual terms of a future Debt Issuance.

DTC is proposing to issue up to an aggregate amount of \$5 billion in senior notes, with an expected average amount issued and outstanding at any time of approximately \$2-3 billion, as DTC deems reasonable, or as necessitated by liquidity needs. While, at the time of this filing, DTC would not need to issue up to the aggregate amount of \$5 billion based on its current liquidity requirements, DTC believes that is advisable to authorize up to this aggregate amount in order to help manage its potential future liquidity needs and the potential risk that it is not able to obtain the requisite amounts from its other sources of default liquidity.

DTC estimates that each issuance would be in an amount between approximately \$250 million and \$1.5 billion, with an initial issuance expected to be between approximately \$500 million and \$1 billion.<sup>12</sup> DTC believes an initial issuance should be at an amount that would attract the attention of potential investors. Therefore, DTC believes that between approximately \$500 million and \$1 billion would be an appropriate amount for the initial issuance for this reason.

The senior notes would be represented by unsecured, unsubordinated and non-convertible medium-term and long-term global notes held in the name of DTC (as the central securities depository) or its nominee, Cede & Co. The notes would be issued and transferred only through the book-entry system of DTC. The senior notes would be

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<sup>12</sup> If market conditions at the time of the inaugural issuance are favorable, DTC may issue an initial aggregate amount of more than \$1 billion.

interest bearing at either fixed or floating interest rates that are set at market rates customary for such type of debt and reflective of the creditworthiness of DTC.

DTC expects the average maturity of the senior notes issued under the Debt Issuance would be no shorter than approximately two years and no longer than approximately ten years, which are the typical lengths of medium-term and long-term debt. DTC does not believe maturities over ten years would be suitable as debt with longer maturities are generally more expensive to issue and may present higher risks related to interest rates. DTC would time each debt issuance and stagger maturity dates of each issuance in order to ladder the maturities. DTC would have the ability to make use of optional features to redeem the issued senior notes, in whole or in part, at any time prior to the maturity date of notes. More specifically, DTC would have the option to prepay any amount of principal owed on the issued senior notes before such payment is due, *i.e.*, before the maturity date.

DTC would hold the proceeds from the Debt Issuance in either its cash deposit account at the Federal Reserve Bank of New York (“FRBNY”) or in accounts at other creditworthy financial institutions in accordance with the Clearing Agency Investment Policy.<sup>13</sup> These amounts would be available to draw to complete settlement as needed.

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<sup>13</sup> See Securities Exchange Act Release Nos. 79528 (Dec. 12, 2016), 81 FR 91232 (Dec. 16, 2016) (SR-DTC-2016-007, SR-FICC-2016-005, SR-NSCC-2016-003); 84949 (Dec. 21, 2018), 83 FR 67779 (Dec. 31, 2018) (SR-DTC-2018-012, SR-FICC-2018-014, SR-NSCC-2018-013). Following the issuance of a Notice of No Objection by the Commission of this proposal, the Clearing Agencies would file a proposed rule change to amend the Clearing Agency Investment Policy to include the proceeds as default liquidity funds, within the definition of “Investable Funds,” as such term is defined therein, and provide that such amounts would be held in bank deposits at eligible commercial banks or at DTC’s cash deposit account at the FRBNY.

*DTC Liquidity Risk Management.* DTC's liquidity needs for settlement are driven by protecting DTC against the possibility that a Participant may fail to pay its settlement obligations on a business day. The tools available to DTC under its Rules (*e.g.*, the Participants Fund, Net Debit Cap and Collateral Monitor) 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.<sup>14</sup> DTC calculates its liquidity needs per Participant (at a legal entity level) and further aggregates these amounts at a family level (that is, including all affiliated Participants, based on the assumption that all such affiliates may fail simultaneously). In this regard, DTC monitors settlement flows and net-debit obligations on a daily basis, determines the appropriateness of each Participant's Net Debit Cap and monitors net settlement activity.

As noted above, the Framework describes DTC's liquidity risk management strategy, which is designed to maintain sufficient liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant, or affiliated family of Participants, with the largest settlement obligation.<sup>15</sup> The Framework also describes how DTC meets its requirement to hold qualifying liquid resources, as such term is defined in Rule 17Ad-22(a)(14) under the Securities Exchange Act of 1934 ("Act"),<sup>16</sup> sufficient to meet its minimum liquidity resource requirement in each relevant currency for which it has

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<sup>14</sup> Supra note 4.

<sup>15</sup> Supra note 5.

<sup>16</sup> 17 CFR 240.17Ad-22(a)(14).



payment obligations owed to its Participants. DTC considers each of its existing default liquidity resources to be qualifying liquid resources, and the proceeds from the Debt Issuance would also be default liquidity that is considered a qualifying liquid resource.

The proceeds from the Debt Issuance would provide DTC with additional, prefunded, and readily available qualifying liquid resources to be used to complete system-wide settlement if a Participant defaults. For DTC, the Participants Fund, Net Debit Cap and Collateral Monitor tools work together to limit potential liquidity requirements in default scenarios both on an intra-day and end-of-day basis. So, while DTC's current available liquidity resources are sufficient to satisfy the single-largest family default under stressed but plausible conditions, the Debt Issuance would allow DTC to diversify its sources of default liquidity and mitigate risks to DTC that it is unable to secure default liquidity resources in an amount necessary to meet its liquidity needs. More specifically, the proposal would provide DTC with the flexibility to reduce its reliance on the Line of Credit, which is renewed annually and dependent on continued lender interest and meet any increased liquidity needs it may face in the future. As a source of prefunded, default liquidity, the Debt Issuance would provide additional certainty, stability, and safety to DTC, its Participants, and the U.S. markets that it serves.

By diversifying DTC's sources of qualifying liquid resources, the Debt Issuance could also mitigate concentration risks related to its liquidity providers. More specifically, while DTC would not limit the potential qualified institutional investors that purchase senior notes and, therefore, is not able to ensure that the Debt Issuance would reduce concentration risk, the types of entities who typically invest in senior notes (for example, insurance companies, asset managers and pension funds) are generally not

Participants of DTC or lenders under the Line of Credit. Therefore, the prospective investors in the senior notes are not expected to be the same firms that currently provide any material amount of default liquidity resources to DTC either through the Line of Credit, or as DTC Participants. In this way, the proposed Debt Issuance would reduce the concentration risk related to its liquidity providers, by reducing the likelihood that an impairment of a liquidity provider to perform under one qualifying liquid resource would impact DTC's ability to fully access its other qualifying liquid resources.

*Anticipated Effect on and Management of Risk*

In connection with its role as a central securities depository ("CSD"), DTC provides for both the settlement of book-entry transfer and pledge of interests in eligible deposited securities and net funds settlement. A financially strong and well-managed, well-designed CSD, with appropriate risk management arrangements, can reduce the risk faced by participants, contributing to the goal of systemic financial stability. In order to sufficiently perform this role, it is critical that DTC has access to adequate liquidity resources to enable it to complete system-wide settlement every business day, including following a Participant default. DTC believes that the overall impact of the proposed Debt Issuance on risks presented by DTC would be to reduce the liquidity risks associated with DTC's net settlement obligations by providing it with an additional source of liquidity to complete system-wide settlement in the event of a Participant default. DTC further believes that a reduction in its liquidity risk would reduce systemic risk and would have a positive impact on the safety and soundness of the wider financial system.

While the proposed Debt Issuance, like any liquidity resource, would involve certain risks, most of these risks are standard in any debt issuance. One risk associated with the proposed Debt Issuance would be the risk that DTC does not have sufficient funds to repay issued senior notes when the notes mature. DTC believes that this risk is extremely remote, as the proceeds of the Debt Issuance would be used only in the event of a Participant default, and DTC would replenish that cash, as it would replenish any of its liquidity resources that are used to facilitate settlement in the event of a Participant default, with the proceeds of the close out of that defaulted Participant's portfolio. This notwithstanding, in the event that proceeds from the close out are insufficient to fully repay a liquidity borrowing, then DTC would look to its loss waterfall to repay any outstanding liquidity borrowings.<sup>17</sup> DTC would further mitigate this risk through the timing of each debt issuance and by staggering the maturity dates of the issued senior notes in a way that would provide DTC with time to complete the close out of a defaulted Participant's portfolio. A second risk is that DTC may be unable to issue new senior notes as issued notes mature due to, for example, stressed markets at the time the issued debt matures. This risk is mitigated by the fact that DTC maintains a number of different default liquidity resources, described above, and would not depend on the Debt Issuance as its sole source of liquidity.

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<sup>17</sup> See Rule 4 (Participants Fund and Participants Investment) of the Rules, supra note 5.

DTC may be exposed to interest rate risk, which is the risk that a change in interest rates could cause an increase to the net cost of carry of the Debt Issuance.<sup>18</sup> DTC would mitigate this risk by issuing senior notes at different maturities and at both fixed interest rates and floating interest rates. The interest rates for the senior notes issued at floating interest rates would generally correlate with the rates on investments of those proceeds<sup>19</sup> and would be expected to result in a largely stable net spread between the borrowing interest rate and the investment interest rate, mitigating this risk. For the senior notes issued with a fixed interest rate, DTC would consider interest rate swaps as a method to mitigate interest rate risk, depending on market environment at that time.

DTC could also face a related financial risk that the expense of a Debt Issuance exceeds DTC's income and may have a negative impact on DTC's financial health or its creditworthiness. DTC would mitigate this risk by evaluating the expected net cost of carry (discussed above) of a Debt Issuance prior to issuing any debt, and if the financing costs for the issuance of senior notes increase, such that it is not financially advisable to issue additional senior notes, then DTC may determine to use its alternative liquidity resources to meet its liquidity needs during those market conditions.

DTC believes that the significant systemic risk mitigation benefits of providing DTC with additional, prefunded liquidity resources outweigh these risks.

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<sup>18</sup> The "net cost of carry" generally refers to the difference between the interest earned on the invested proceeds of an issuance and the interest rate paid on that issuance.

<sup>19</sup> See supra note 12.

*Consistency with Clearing Supervision Act*

DTC believes that that proposal would be consistent with Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”), specifically with the risk management objectives and principles of Section 802(b)(1), and with certain of the risk management standards adopted by the Commission pursuant to Section 805(a)(2), for the reasons described below.<sup>20</sup>

*(i) Consistency with Section 805(b)(1) of the Clearing Supervision Act*

Although the Clearing Supervision Act does not specify a standard of review for an advance notice, its stated purpose is instructive: to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.<sup>21</sup>

DTC believes the proposal is consistent with Section 805(b)(1) of the Clearing Supervision Act because it would support the mitigation of systemic risk in the financial system and promote financial stability in the event of a Participant default by strengthening DTC’s liquidity. The proposed Debt Issuance is designed to reduce DTC’s liquidity risks by providing it with an additional source of liquidity to complete system-wide settlement in the event of a Participant default. By supplementing DTC’s existing default liquidity resources with prefunded liquidity, the proposal would contribute to

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<sup>20</sup> 12 U.S.C. 5464(a)(2) and (b)(1).

<sup>21</sup> 12 U.S.C. 5464(b)(1).

DTC's goal of assuring that DTC has adequate liquidity resources to meet its settlement obligations notwithstanding the default of any of its Participants.

In its critical role as a CSD, DTC provides for both the settlement of book-entry transfer and pledge of interests in eligible deposited securities and net funds settlement. In order to sufficiently perform this role, it is critical that DTC has access to adequate liquidity resources to enable it to complete system-wide settlement every business day, including following a Participant default. Therefore, a reduction in DTC's liquidity risk would reduce systemic risk and would have a positive impact on the safety and soundness of the wider financial system.

As a result, DTC believes the proposed Debt Issuance would be consistent with the objectives and principles of Section 805(b)(1) of the Clearing Supervision Act, which specify the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks and support of the stability of the broader financial system by, among other things, strengthening the liquidity of systemically important financial market utilities, such as DTC.

*(ii) Consistency with Rule 17Ad-22(e)(7)(i) and (ii) under the Act*

Section 805(a)(2) of the Clearing Supervision Act authorizes the Commission to prescribe risk management standards for the payment, clearing and settlement activities of designated clearing entities, like DTC, and financial institutions engaged in designated activities for which the Commission is the supervisory agency or the appropriate financial regulator.<sup>22</sup> The Commission has accordingly adopted risk management standards under

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<sup>22</sup> 12 U.S.C. 5464(a)(2).



Section 805(a)(2) of the Clearing Supervision Act<sup>23</sup> and Section 17A of the Act (“Covered Clearing Agency Standards”).<sup>24</sup> The Covered Clearing Agency Standards require covered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.<sup>25</sup>

DTC believes that the proposed Debt Issuance is consistent with Rule 17Ad-22(e)(7)(i) and (ii) of the Covered Clearing Agency Standards for the reasons described below.<sup>26</sup>

Rule 17Ad-22(e)(7)(i) under the Act requires that DTC establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain 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 the covered clearing agency in extreme but plausible market conditions.<sup>27</sup> Rule 17Ad-22(e)(7)(ii) under the Act requires that DTC establish, implement, maintain and enforce written policies and procedures reasonably designed to hold qualifying liquid resources sufficient to meet the minimum liquidity

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<sup>23</sup> Id.

<sup>24</sup> 17 CFR 240.17Ad-22(e).

<sup>25</sup> Id.

<sup>26</sup> 17 CFR 240.17Ad-22(e)(7)(i), (ii).

<sup>27</sup> 17 CFR 240.17Ad-22(e)(7)(i).

resource requirement under Rule 17Ad-22(e)(7)(i) in each relevant currency for which DTC has payment obligations owed to its Participants.<sup>28</sup>

As described above, the proposed Debt Issuance would provide DTC with an additional resource of prefunded default liquidity, which it would use to complete system-wide settlement every business day, including following a Participant default. The proceeds of the Debt Issuance would be cash held by DTC at either its cash deposit account at the FRBNY or at a creditworthy commercial bank, pursuant to the Clearing Agency Investment Policy.<sup>29</sup> Therefore, the proceeds of the Debt Issuance would be considered a qualifying liquid resource, as defined by Rule 17Ad-22(a)(14).<sup>30</sup> As such, the proposed Debt Issuance would support DTC's ability to hold sufficient qualifying liquid resources to meet its minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i).<sup>31</sup>

For these reasons, DTC believes the proposal would support DTC's compliance with Rule 17Ad-22(e)(7)(i) and (ii) by providing it with an additional qualifying liquid resource.<sup>32</sup>

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<sup>28</sup> 17 CFR 240.17Ad-22(e)(7)(ii). For purposes of this Rule, "qualifying liquid resources" are defined in Rule 17Ad-22(a)(14) as including, in part, cash held either at the central bank of issue or at creditworthy commercial banks. 17 CFR 240.17Ad-22(a)(14).

<sup>29</sup> Supra note 13.

<sup>30</sup> 17 CFR 240.17Ad-22(a)(14).

<sup>31</sup> 17 CFR 240.17Ad-22(e)(7)(i).

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

III. Date of Effectiveness of the Advance Notice, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its website of proposed changes that are implemented.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notice is consistent with the Clearing Supervision 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](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2023-801 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-2023-801. 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 Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice 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>). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from

publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-DTC-2023-801 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

By the Commission.

Secretary

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