

MEMO# 22601

June 10, 2008

SEC Approves DTC and NSCC Proposal Regarding Settlement of Institutional Transactions

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TO: SEC RULES MEMBERS No. 49-08EQUITY MARKETS ADVISORY COMMITTEE No. 25-08
RE: SEC APPROVES DTC AND NSCC PROPOSAL REGARDING SETTLEMENT OF INSTITUTIONAL TRANSACTIONS

The Securities and Exchange Commission has approved a proposed rule change filed by The Depository Trust Company ("DTC") and the National Securities Clearing Corporation ("NSCC") to establish the ID Net Service. The new system will allow subscribers to net all eligible institutional transactions at DTC against their Continuous Net Settlement system ("CNS") transactions at NSCC.*

The Order describes how the ID Net Service will provide settlement netting functionalities for institutional transactions by leveraging the netting and settlement capabilities of NSCC with the existing processing capabilities of DTC. It states that the ID Net Service will net the broker-dealer's side of institutional transactions with the broker-dealer's broker-to-broker activity that is eligible for processing through NSCC's CNS service. In other words, transactions eligible for processing in the ID Net Service will not have to be settled on a trade-for trade basis at DTC, as is currently the case.

The Order states that eligibility for the service is based on the participants, the underlying security, the type of trade, and the timing of the affirmation as follows: (1) the broker-dealer must be both an NSCC member and a DTC participant; (2) the custodian bank

must be a DTC participant; (3) the broker-dealer and the custodian bank must both elect to participate in the ID Net Service; and (4) the security must be an equity security eligible for CNS. According to the Order, the following securities initially will not be eligible for the ID Net Service:

- Corporate and municipal bonds and unit investment trust issues;
- New issue securities in their first day of IPO trading;
- Securities that are IPO tracked (since the use of omnibus accounts will bypass the tracking system);
- Securities that are undergoing a mandatory or voluntary reorganization;
- Securities with a pending CNS buy-in; and
- Securities appearing on the SEC's Regulation SHO list.

If an ID Net Service transaction is not completed as prescribed in the rules governing the new system, for any reason, the Order provides that the transaction will be "dropped" from the ID Net Service and instead will be settled trade-for-trade between the original counterparties at DTC as if the transaction had not been included in the ID Net Service. The operation and procedures governing the new service are described in further detail in the Order.

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