

public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of DTC. All submissions should refer to the File No. SR-DTC-2003-04 and should be submitted by May 19, 2003.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁶

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47709; File No. SR-DTC-2003-07]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Proposed Rule Change To Establish a Transaction Look-Ahead Process

April 21, 2003.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on April 9, 2003, 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 primarily by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

DTC is seeking to establish a transaction look-ahead process ("Look-Ahead") which will reduce transaction blockage by applying the net amount of offsetting receive and deliver transactions in the same security rather than the gross amount of the receive transaction to a participant's net debit cap.²

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC 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 examined at the places specified in Item IV below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.³

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

DTC's system controls prevent the processing of a transaction (*i.e.*, cause the transaction to recycle) when the deliverer has insufficient position or collateral, the receiver has insufficient collateral, or the processing of the transaction would cause the receiver's net debit cap to be breached. For purposes of these controls, each transaction is assessed individually without regard to offsetting transactions that might resolve any system control issue presented by the initial transaction itself.

In principle, a long series of back-to-back transactions could be blocked as a result of the first transaction failing. For example, if a transaction fails for insufficient position, collateral, or net debit cap, then a second transaction could fail because it is dependent on the first delivery to establish the necessary securities position, then a third could fail, and so on. This does in fact occur quite often in the money market instrument ("MMI") market because of the large values involved when issuing/paying agents sell new commercial paper to broker-dealers who then make deliveries to custodians, who in turn have maturities of commercial paper awaiting acceptance by the issuing/paying agents.

DTC plans to introduce Look-Ahead in June. Look-Ahead will reduce transaction blockage by applying the net amount of offsetting receive and deliver transactions in the same security rather than the gross amount of the receive transaction to a participant's net debit cap. Look-Ahead will identify receive transactions pending due to a net debit cap insufficiency and link them to offsetting delivery transactions in the same security pending for a quantity deficiency. DTC will calculate the net

effect of the offsetting transactions on the three participants involved, and if the net of the transactions results in positive risk management controls in all three accounts, the transactions will be completed. Initially, this capability will be available only for muni and corporate bonds, including MMIs where it is expected to have the widest application.

As a result of Look-Ahead, the number of recycling transactions will be reduced which could also reduce the need for intraday funding by participants and could help achieve a more efficient level of straight-through processing. Participants will not be required to make systemic changes and can continue to process their deliveries as they do today.

DTC believes that the proposed rule change is consistent with the requirements of section 17A of the Act⁴ and the rules and regulations thereunder applicable to DTC. By applying the net amount of offsetting receive and deliver transactions in the same security rather than the gross amount of the receive transaction to a participant's net debit cap, the proposed rule change should reduce the number of blocked transactions at DTC which would promote the prompt and accurate clearance and settlement of securities transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, in the public interest, and for the protection of investors.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

DTC has discussed this rule change proposal in its current form with various DTC participants and industry groups, a number of whom have worked closely with DTC in developing Look-Ahead.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory

⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² The net debit cap, based upon the activity of the participant, is the maximum amount a participant may owe for transactions. Currently, the maximum allowable net debit cap is \$1.8 billion per participant.

³ The Commission has modified the text of the summaries prepared by DTC.

⁴ 15 U.S.C. 78q-1.