

The Open Meeting scheduled for Wednesday, May 28, 2003 at 10 a.m., has been changed to Tuesday, May 27, 2003 at 2 p.m.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact:

The Office of the Secretary at (202) 942-7070.

Dated: May 23, 2003.

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47899; File No. SR-DTC-2003-06]

### Self-Regulatory Organizations; the Depository Trust Company; Notice of Filing of Proposed Rule Change To Restrict the Next-Day Matched Reclamation Process

May 21, 2003.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on April 7, 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 restrict the ability of participants to effect reclamations to reverse completed Deliver Order ("DO") and Payment Order ("PO") transactions processed on the previous business day.

#### 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.<sup>2</sup>

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

DTC's current reclamation procedures allow participants to submit reclamations to reverse completed DO and PO transactions. When reclamation instructions are received, DTC currently attempts to match the reclaim with a completed original transaction processed on the current day ("same-day reclaims") or on the preceding business day ("next-day reclaims"). Reclamations that are not matched to original deliveries are considered unmatched reclaims and are subject to the same rules and controls as original transactions. Reclamations that are matched to original deliveries are considered matched reclaims and are permitted to bypass the Receiver Authorized Delivery ("RAD") system and override DTC's risk management controls if they are DOs less than \$15 million or POs less than \$1 million.<sup>3</sup> In addition, matched reclamations can be processed in the exclusive reclaim period (3:20 p.m. to 3:30 p.m.) and cannot be re-reclaimed by the receiver.

Reclamations in general and next-day reclamations in particular impair the finality of settlement and prolong the period during which delivering participants and DTC are at risk. To minimize this exposure, DTC plans to eliminate the next-day matched reclamation process. Under its proposed procedures, DTC would continue to accept reclamation instructions and link those reclaim transactions to original transactions. However, only reclamation transactions that are linked to original transactions processed the same processing day would be considered matched. Only these matched reclaim transactions would be permitted to bypass RAD and DTC's risk management controls. In addition, only these matched reclaim transactions could be submitted in the exclusive reclaim period and would be blocked from subsequent re-reclamation by the original deliverer.

<sup>2</sup> The Commission has modified the text of the summaries prepared by DTC.

<sup>3</sup> RAD is a control mechanism that allows participants to review transactions prior to completion of processing and that limits participants' exposure from misdirected or erroneously entered deliveries or payment orders. The override of DTC's risk management controls is designed to address industry concern that the receiver not be "stuck" with a delivery it does not know because of the depository's risk management controls.

Reclamation transactions that are linked to original transactions processed prior to the current processing day would be processed in the same manner as other deliveries. That is, they would not bypass RAD or DTC's risk management controls. These linked reclamations would have to be submitted during normal input times and would not be allowed in the exclusive reclaim period. Furthermore, a participant receiving a linked reclamation that it believes is inappropriate would be able to re-reclaim that transaction. To allow participants to continue automatically tracking transaction status changes, however, both matched and linked reclaim output will contain the Relative Block Number of both the reclamation and the original transaction.

DTC plans to implement the enhancements to the reclamation process in phases. Beginning July 17, 2003, subject to Commission approval, DTC will eliminate the next-day matched reclaim process for money market instruments ("MMIs"). After that date, MMI reclaim transactions that cannot be matched to original transactions processed on the same business day will be processed in the same manner as other deliveries. DTC plans to eliminate the next-day matched reclaim capability for all other securities late in 2003 or early in 2004. At that time, DTC also proposes to begin linking reclamation transactions with original transactions processed in the preceding 60 days.

DTC believes that the proposed rule change is consistent with the requirements of section 17A of the Act<sup>4</sup> and the rules and regulations thereunder applicable to DTC. By restricting the next-day matched reclamation process, the proposed rule change should remove impediments to the finality of the settlement process and should shorten the period during which delivering participants and DTC are at risk. As a result, the proposed rule change should promote the prompt and accurate clearance and settlement of securities transactions.

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

DTC perceives no impact on competition by reason of the proposed rule change.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>4</sup> 15 U.S.C. 78q-1.