

Commission is cognizant that many countries have embarked on ambitious reforms with respect to auditor oversight, and that the International Organization of Securities Commissions has issued a statement noting the basics of robust and effective oversight. Given these developments, we are confident that the Board and its foreign counterparts will make progress in developing workable cooperative arrangements.

B. Other Aspects of the Registration System

Many of the comment letters submitted by accounting firms and professional groups related to specific aspects of the registration form. A continuing theme of many of the comment letters was the desire for clarification of certain definitions, rules and registration form line items. It is not surprising that first-time users of a registration form and those seeking to work through a complex registration system would find areas of ambiguity. We believe that some of the issues raised by commenters in this group can be addressed by the PCAOB through formal or informal interpretations and clarifications, and, in this connection, we understand that the Board is considering the publication of "Frequently Asked Questions" and responses. We encourage the Board to use this and other means to assist applicants in complying with the registration rules. We also encourage the Board to review the registration form after the Board has gained more experience with the registration process, to determine whether amendments to the form can be made to make the registration process more efficient.

Finally, with respect to the comments submitted by NASBA, we appreciate the efforts of that organization and its members to work with the PCAOB on the important task of auditor regulation and oversight. We believe that both the Board and state regulatory bodies will benefit from continued close cooperation.

V. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rules are consistent with the requirements of the Act and the securities laws and are necessary and appropriate in the public interest and for the protection of investors.

It is therefore ordered, pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934, that the proposed rules (File No. PCAOB-2002-03) be and hereby are approved.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-48176; File No. SR-DTC-2002-19]

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Establish an Inventory Management System

July 14, 2003.

I. Introduction

On December 19, 2002, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-DTC-2002-19 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on May 21, 2003.² For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

The industry's prolonged discussions of the development of a new matching model that would promote straight through processing ("STP") for institutional transactions identified a series of deficiencies in the current processing systems used in settling those transactions.³ Industry members, particularly members of the Securities Industry Association's Institutional Trade Processing Committee, pressed DTC to develop a series of capabilities which would permit participants to centrally manage their own settlements as a way of furthering STP in the settlement process itself. A working

group under the Settlement Advisory Board of The Depository Trust & Clearing Corporation ("DTCC") assisted in crafting the framework for IMS.

Today, participants control the processing of their institutional deliveries received from a matching utility (such as Omgeo) through DTC's Authorization and Exception system ("ANE"). ANE prevents a delivery from being sent to DTC's processing system without an affirmative authorization from the delivering participant. This affirmative authorization is given either on an item-by-item basis or through a "global" authorization. A participant can submit exceptions to explicitly withhold a delivery from processing. Conversely, deliveries from the National Securities Clearing Corporation's ("NSCC's") Continuous Net Settlement system ("CNS") are automatically processed unless the participant instructs NSCC otherwise via an exemption. Other deliveries, such as Night Deliver Orders ("NDOs"), along with authorized institutional deliveries and CNS deliveries are processed by DTC at predefined times. All of these transactions may recycle (*i.e.*, pend) in the event of a position deficiency or a problem with system controls. Recycles are processed based on one of two recycle options; a "First In First Out" process or a DTC preestablished recycle queue.

Participants generally have sought greater control over the processing of their deliveries than these procedures permit. Therefore, participants have built internal inventory management systems or adopted internal manual procedures that exempt deliveries from automatic processing so that the participants can control the sequence and timing of their deliveries. This has caused the industry to build redundant systems, has increased the number of reclaims, and is contrary to achieving STP.

Implementation of the IMS allows a participant to choose how it wants to authorize its deliveries. The key components of IMS include:

(1) New authorization capabilities (which replace the ANE system) that allow participants to stage transactions for automated settlement;

(2) A new "profiling" system that allows participants greater control over the timing and order of their deliveries using predefined profiles, based on transaction type and asset class, to eliminate today's frequent direct intervention in the settlement process that inhibits STP;

(3) Capabilities permitting the linkage of transactions so particular receive

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 47826 (May 9, 2003), 68 FR 27876.

³ The present U.S. system has evolved over time in different ways for different instruments, participants, and marketplaces. While the current system has met the needs of the industry well, the result is an intricate web of processing steps that are not standardized and are quite complex and inflexible. Many participants manage their processing with late-cycle interventions such as (a) withholding or "exempting" trades from more automatic processes, subsequently intervening in the system to reintroduce the transaction when they are ready to process it and (b) reversing or "reclaiming" problem transactions before or after settlement has occurred. These practices late in the settlement cycle disrupt automated processing and contribute to the incidence of fails, which creates costs and risks for participants and for the system as a whole.