

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-58910; File No. SR-DTC-2008-07)

November 6, 2008

Self-Regulatory Organizations; The Depository Trust Company; Order Granting Approval of a Proposed Rule Change to Implement Processing Enhancements to the Profile Modification System Used in the Direct Registration System

I. Introduction

On July 7, 2008, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).<sup>1</sup> Notice of the proposal was published in the Federal Register on August 11, 2008.<sup>2</sup> No comment letters were received. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

As the use of the Direct Registration System (“DRS”) continues to grow, attention has centered on reducing the number of rejected instructions submitted through the Profile Modification System (“Profile”), a facility administered by DTC that allows an investor’s DRS position to be transferred from the records of the transfer agents<sup>3</sup> to a broker-dealer and vice versa. In order to effectively transfer an investor’s securities position using Profile, the broker-dealer DTC participant must enter into Profile an instruction containing certain identifying criteria of the investor, such as share quantity and a taxpayer identification number (“TIN”) or Social Security Number. If the submitted information does not match the information the DRS

---

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

<sup>2</sup> Securities Exchange Act Release No. 58292 (August 1, 2008), 73 FR 46693 (August 11, 2008) [File No. SR-DTC-2008-07].

<sup>3</sup> Transfer agents must be designated as DRS Limited Participants by DTC in order to facilitate DRS instructions through Profile.

Limited Participant (i.e., the transfer agent) has on its file, the Profile instruction is rejected, which may result in a rejection fee assessed by the DRS Limited Participant. More importantly, the rejection can also result in delays in transferring the position, which could possibly cause financial harm to an investor.

Today, nearly 25% of all Profile instructions are rejected by the transfer agents. The two most common reasons for rejections are the Profile instruction not matching the share quantity or the investor's TIN or Social Security number on the transfer agent's records. The DRS Ad Hoc Committee, an industry committee established to address operational issues related to DRS, believes that by implementing certain system and processing improvements, about 7,000 Profile rejections per month could potentially be eliminated.

A. Proposed Changes to Profile

In an effort to decrease the number of rejections in Profile, DTC will make the following enhancements to Profile functionality.

Move All Instruction. Currently, Profile requires a participant to enter a specific share quantity or dollar value (in the case of debt) in its Profile instruction. Under the rule change, a participant submitting an instruction in Profile will be allowed to select one of the following options: (1) enter a specific share quantity or dollar value; (2) "move all" of the investor's whole shares<sup>4</sup> to the requesting participant's account at DTC; (3) "move all" of the investor's whole shares to the requesting participant's account at DTC, liquidate any fractional share positions remaining in the account at the transfer agent, and have the cash proceeds mailed directly to the

---

<sup>4</sup> DTC's systems only process and allow whole shares to be processed and held in participants' accounts at DTC. They do not accommodate fractional shares.

investor; (4) “move all” of the investor’s whole shares to the requesting participant’s account at DTC, liquidate any fractional share positions remaining in the account at the transfer agent, have the cash proceeds mailed directly to the investor, and close the investor’s DRS and Dividend Reinvestment Plan (“DRIP”) account.<sup>5</sup> By using the “move-all” functionality, participants can forgo referencing a specific share quantity in the Profile instruction, which DTC believes should eliminate a major cause of Profile rejections.<sup>6</sup>

Dual TIN or Social Security Numbers. Currently, participants are permitted to enter only one TIN or Social Security number in its Profile instruction. Under the rule change, participants may elect to submit a Profile instruction with two TINs or Social Security numbers instead of one. The option to submit a Profile instruction with two TIN or Social Security numbers may be necessary, for example, where the investor’s account is a joint account. For those Profile instructions with two TINs or Social Security Numbers, the transfer agent will only need to match on one of the TIN or Social security numbers on the Profile instruction to the its records for the investor account.

The rule change will require broker-dealers and transfer agents that process their DRS transactions through a direct electronic computer-to-computer link with DTC to make internal

---

<sup>5</sup> Some transfer agents maintain separate investor accounts for DRIP shares and DRS positions. The participant’s instruction through Profile to close the account would require a DRS Limited Participant to close both the DRIP and the DRS account.

<sup>6</sup> Although DRS Limited Participants are able to enter Profile instructions to move DRS positions from a broker-dealer’s account at DTC to the investor’s account on the books of the transfer agent, the proposed rule change will not permit the “move all” function in Profile to be available to the DRS Limited Participant at this time.

system enhancements to accommodate DTC's changes to Profile.<sup>7</sup> Specifically, internal systems will need to be enhanced so that they are able to accept DRS Profile instructions to "move all" shares from the investor's account at the transfer agent to the investor's broker-dealer's account at DTC. They will also need to be enhanced to provide for the processing of a Profile instruction with a second TIN/Social Security Number.

B. Proposed Remuneration

Pursuant to the new rule, broker-dealers will be required to pay transfer agents two types of remuneration: (1) reimbursement to compensate for the initial system development of the enhancements contemplated under the move-all proposal and (2) a transaction fee to pay for the on-going administration of the proposed new functions. Accordingly, broker-dealers will pay for seventy-five percent of all system costs with a maximum payment of \$200,000 per transfer agent for project plans submitted by transfer agents to DTC by September 1, 2008. For project plans that will be managed by a third party vendor, broker-dealers will be required to pay a remuneration based on the vendor's total project cost. DTC will act as a conduit to collect and distribute the remuneration from the broker-dealers to transfer agents.

Under the "move all" proposal, transfer agents were required to submit a project plan to DTC by September 1, 2008, and should be ready to implement the "move all" Profile functionality by November 1, 2008, in order to be eligible to receive the system cost remuneration. DTC will make a one time payment to eligible transfer agents no later than ninety calendar days after the completion of the move all and dual TIN or Social Security Number

---

<sup>7</sup> It is anticipated that for those users that communicate Profile instructions through DTC through a dedicated terminal (PTS or PBS), they will only need to update their internal procedures and workflow.

functionality going live. DTC will collect a surcharge of \$1.00 from broker-dealers for no more than twenty-four calendar months for each Profile transaction submitted by a broker-dealer in order to offset the up-front remuneration made by DTC to transfer agents. DTC will eliminate the surcharge at the end of twenty-four calendar months or sooner if the total amount of up-front remuneration paid by DTC is collected before the twenty-four month period has expired.

DTC will also charge broker-dealers \$.75 per Profile transaction to offset the transfer agents' on-going costs of supporting the "move all" function. The transaction fee will be adjusted annually to reflect DRS Profile transactional volume changes. The rule change will require transfer agents that wish to receive a transaction fee to have submitted their project plan by September 1, 2008. The transfer agents represented on the DRS Ad Hoc Committee have agreed that the remunerations from the transactional fee will be no more than \$25,000 per year per transfer agent. DTC will pay each eligible transfer agent with 2,000 or more Profile transactions monthly a set monthly amount of \$2,080, or \$24,960 annually. DTC will pay each eligible transfer agent with at least 200 transactions monthly but less than 2,000 transactions monthly a set monthly amount of \$800, or \$9,600 annually. DTC will not pay transfer agents with less than 200 transactions a month.

C. DRS Limited Participant Eligibility Requirements

DTC will amend its DRS Limited Participant rules to require transfer agents to be able to process Profile instructions requesting the "move all" options and instructions including dual TIN or Social Security Numbers. To maintain eligibility as a DRS Limited Participant, all current DRS Limited Participants must provide "move all" and dual TIN or Social Security number processing capability by no later than December 31, 2008.

III. Discussion

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest.<sup>8</sup> The rule change is consistent with the provisions of the Act because it improves efficiency and reduces risks in DRS.

Accordingly, for the reasons stated above the Commission finds that the rule change, is consistent with DTC's obligation under Section 17A of the Act to promote the prompt and accurate clearance and settlement of securities transactions, to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest.

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

---

<sup>8</sup> 15 U.S.C. 78q(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-2008-07) be and hereby is approved.<sup>9</sup>

For the Commission by the Division of Trading and Practices, pursuant to delegated authority.<sup>10</sup>

Florence E. Harmon  
Acting Secretary

---

<sup>9</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>10</sup> 17 CFR 200.30-3(a)(12).