



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY

Investor Bulletin: DTC Chills and Freezes

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to help educate investors about the effects of chills and freezes on an investor's ability to hold and trade securities. A "chill" is a limitation of certain services available for a security on deposit at The Depository Trust Company ("DTC"). A "freeze," formally referred to as a "global lock," is a complete restriction on all DTC services for a particular security on deposit at DTC.

What is DTC and what does it do?

DTC was created by the securities industry to improve efficiencies and reduce risk in the clearance and settlement of securities transactions. Today, DTC is the largest securities depository in the world. Including securities issued in the U.S. and 121 other countries, DTC has on deposit 3.6 million securities worth about \$35 trillion.

As a clearing agency registered with the SEC, DTC provides security custody and book-entry transfer services for securities transactions in the U.S. market involving equities, corporate and municipal debt, money market instruments, American depository receipts, and exchange-traded funds. In accordance with its rules, DTC accepts deposits of securities from its participants (i.e., broker-dealers and banks), credits those securities to the depositing participants' accounts, and effects book-entry movements of those securities.

Most large U.S. broker-dealers and banks are DTC participants, meaning that they deposit and hold securities at DTC. DTC appears in an issuer's stock records as the sole registered owner of securities deposited at DTC. DTC holds the deposited securities in "fungible bulk," meaning that there are no specifically identifiable shares directly owned by DTC participants. Rather, each participant owns a pro rata interest in the aggregate number of shares of a particular issuer held at DTC. Correspondingly, each customer of a DTC participant, such as an individual investor, owns a pro rata interest in the shares in which the DTC participant has an interest.

Because the securities held by DTC are for the benefit of its participants and their customers (i.e., investors holding their securities at a broker-dealer), frequently the issuer and its transfer agent must interact with DTC in order to facilitate the distribution of dividend payments to investors, to facilitate corporate actions (i.e., mergers, splits, etc.), to effect the transfer of securities, and to accurately record the number of shares actually owned by DTC at all times.

What are “chills” and “freezes” and why does DTC impose them?

Occasionally a problem may arise with a company or its securities on deposit at DTC. In some of those cases DTC may impose a “chill” or a “freeze” on all the company’s securities. A “chill” is a restriction placed by DTC on one or more of DTC’s services, such as limiting a DTC participant’s ability to make a deposit or withdrawal of the security at DTC. A chill may remain imposed on a security for just a few days or for an extended period of time depending upon the reasons for the chill and whether the issuer or transfer agent corrects the problem. A “freeze” is a discontinuation of all services at DTC. Freezes may last a few days or an extended period of time, depending on the reason for the freeze. If the reasons for the freeze cannot be rectified, then the security will generally be removed from DTC, and securities transactions in that security will no longer be eligible to be cleared at any registered clearing agency.

DTC imposes chills and freezes on securities for various reasons. For example, DTC may impose a chill on a security because the issuer no longer has a transfer agent to facilitate the transfer of the security or the transfer agent is not complying with DTC rules in its interactions with DTC in transferring the security. Often this type of situation is resolved within a short period of time.

Chills and freezes can be imposed on securities for more complicated reasons, such as when DTC determines that there may be a legal, regulatory, or operational problem with the issuance of the security, or the trading or clearing of transactions involving the security. For example, DTC may chill or freeze a security when DTC becomes aware or is informed by the issuer, its transfer agent, federal or state regulators, or federal or state law enforcement officials that an issuance of some or all of the issuer’s securities or transfer in those securities is in violation of state or federal law. If DTC suspects that all or a portion of its holdings of a security may not be freely transferable as is required for DTC services, it may decide to chill one or more of its services or place a freeze on all

services for the security. When there is a corporate reorganization, DTC will temporarily chill the security for book-entry activities.

When DTC chills or freezes a security, it will issue a “Participant Notice” to its participants. These notices are publicly available on DTC’s website at http://www.dtcc.com/legal/imp_notices. When securities are frozen, DTC also provides optional automated notifications to its participants. These processes provide participants the ability to update their systems to automatically block future trading of affected securities, in addition to alerting participant compliance departments. DTC has [information regarding these processes](#) on its website.

What can investors do?

Prior to investing in a security, investors can ask their broker-dealer if there are or ever have been any DTC restrictions placed on any security they are considering buying or selling. This information may affect your decision to purchase or sell the security. The broker-dealer or the broker-dealer’s compliance department should be able to address the inquiry by checking with its back office or by calling its account manager at DTC. Given that DTC does not always disclose the reason for a chill or freeze, a broker-dealer may not be able to provide its customer with information as to why the freeze was imposed or if or when it will be lifted. Investors should also thoroughly research the company and its transfer agent prior to investing in the security.

Related Information

We offer educational materials so that investors can develop an understanding of the securities industry and learn how to avoid costly mistakes and fraud. Our educational materials also provide tips on how investors can invest wisely. Investors can order our free publications by calling (800) SEC-0330, or access them on the Internet through the SEC's Investor.gov website. For additional educational information for investors, see the SEC's Investor.gov website, the [Office of Investor Education and Advocacy's homepage](http://OfficeofInvestorEducationandAdvocacy.com), and www.sec.gov.

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