

The Depository Trust Company  
**IMPORTANT**

**B#:** 2004-10

**DATE:** September 09, 2004

**TO:** All Interested Parties

**CATEGORY:** SEC Rule Filings

**FROM:** General Counsel's Office

**ATTENTION:** All Interested Parties

**SUBJECT:** Inventory Management System (IMS) Phase II

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 19b-4

Proposed Rule Change

By

THE DEPOSITORY TRUST COMPANY

Pursuant to Rule 19b-4 under the  
Securities Exchange Act of 1934

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**a. Text of the Proposed Rule Change.**

(a) The Depository Trust Company (“DTC”) is filing a proposed rule change to introduce Phase II of the Inventory Management System (“IMS”). In its initial implementation, IMS replaced the Authorization and Exception (ANE) system to allow for automated settlement of institutional deliveries. IMS permits authorization and control within asset class and transaction type (e.g., night deliver orders (“NDO”)), via pre-defined profiles, providing Participants with increase control and timing over their deliveries.<sup>1</sup> The new enhancements to the IMS service will extend a Participant’s ability to control the submission of its deliveries and permit Participants to determine how their deliveries recycle in the system.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization.**

(a) The proposed rule change was adopted by DTC’s Board of Directors.

(b) The following person at DTC may be contacted concerning this filing:

Diane L. Brennan, Director, Risk Management, (212) 855-3320 or

Larry E. Thompson, Managing Director and General Counsel, (212) 855-3240

**3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.**

(a) Current Process. IMS allows Participants to:

- stage their institutional deliveries received from a matching utility system (such as Omgeo’s TradeSuite system) for automated settlement;
- establish a pre-defined profile to allow greater control over the timing and order of their deliveries by transaction type and asset class;

- re-introduce drop deliveries for NDO, broker-to-broker Balance Orders and all other Participant deliveries;
- warehouse deliveries with future settlement dates through the NDO function.

Currently, deliveries from the National Securities Clearing Corporation's ("NSCC") Continuous Net Settlement ("CNS") system are automatically processed unless the Participant instructs NSCC (via an exemption). Other deliveries (e.g., NDOs), along with authorized institutional and CNS deliveries, are processed by DTC at pre-defined times. All of these transactions may pend ("recycle") in the event of a position deficiency or a problem with system controls; these recycles are processed based on one of two recycle options: a "First In First Out" process or a DTC pre-established recycle queue.

The Proposal. DTC is now seeking to allow a Participant to customize the order in which their authorized night cycle deliveries, such as CNS and institutional deliveries ("ID") are submitted for processing and to have the ability to create a profile that instructs DTC's processing system how to attempt to complete their recycling deliveries that are pending for insufficient position.

DTC currently recycles deliveries for insufficient position in a prescribed order based on transaction type and settlement value. To address their unique recycle requirements, some Participants withhold their deliveries to DTC. For other Participants, deliveries may not complete in their desired order.

IMS will now permit a Participant to pre-populate a profile that "customizes" its position recycle order for settlement-related transactions. Transactions will be attempted and processed in the prescribed order if there are sufficient shares. If there are insufficient shares to

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<sup>1</sup> For additional information on DTC's IMS processing, see DTC's filing on Form 19b-4, File No. SR-DTC-2002-19.

complete a high priority transaction, then transactions with a lower priority but sufficient shares will be processed, subject to other controls. This service is optional and the current recycle order (default), i.e., CNS has highest priority for deliveries, then valued releases, etc. will remain in effect unless profile changes are made.

Participants will be able to promote their recycling transactions via 15022 messages or a new PBS screen in IMS if they have update capability (IMSU). Transactions can be promoted to the top of the recycle queue. Once a transaction is promoted, a Participant can promote another transaction higher or lower than the previously promoted transaction.

In order to recoup the costs of this development, each delivery that is promoted will be billed \$.045. Each delivery that is “customized” by these profiles (including deliveries that are submitted using the current active to passive functionality) will be charged \$0.06. If a delivery is submitted and recycles based upon profile selection the delivery will not be double charged, i.e., it will cost \$0.06 to have a delivery submitted and recycled by IMS based upon the profile created.

Participants will not be required to make systemic changes and can continue to process their deliveries as they do today. All IMS features are optional and Participants can migrate to any or all features they deem valuable.

Implementation. The proposed change is scheduled to be implemented in December 2004.

The Benefits. The new enhancements to the IMS service will extend and improve a Participant’s ability to control the submission of its deliveries and permit users to determine how their deliverables should recycle in the system, based on a Participant-defined profile.

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to DTC because it promotes efficiencies in the clearance and settlement of securities transactions.

**4. 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 this Act, in the public interest or for the protection of investors.

**5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants and 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 in developing the proposed IMS system.

**6. Extension of Time Period for Commission Action.**

Not applicable.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).**

Not applicable.

**8. Proposed Rule Change Based on rules of Another Self-Regulatory Organization or of the Commission.**

Not applicable.

9. **Exhibits.**

1. Completed Notice of the Proposed Rule Change for publication in the Federal Register.
2. DTC Important Notice #6329 dated September 7, 2004 describing the IMS Enhancements.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

**The Depository Trust Company**

By: /s/ Larry E. Thompson  
Larry E. Thompson  
Managing Director and General Counsel