

Page 1 of

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 Form 19b-4

File No. SR - -
 Amendment No.

Proposed Rule Change by The Depository Trust Company
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
Date Expires <input type="text"/>			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document Exhibit 3 Sent As Paper Document

Description
 Provide a brief description of the proposed rule change (limit 250 characters).
 The purpose of the proposed Rule Filing is to amend DTCs Procedures with respect to surveillance of Participants.

Contact Information
 Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Last Name
 Title
 E-mail
 Telephone Fax

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

Date
 By General Counsel
 (Name) (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change.

(a) The purpose of the proposed rule filing submitted by the Depository Trust Company (“DTC”) is to amend DTC’s procedures with respect to surveillance of Participants.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) Approval of DTC’s Board of Directors, or approval of any DTC Committee, is not required for the proposed rule filing.

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

(a) The purpose of the proposed rule filing submitted by the Depository Trust Company (“DTC”) is to amend DTC’s procedures with respect to surveillance of Participants.

(i) Overview

DTC has developed certain criteria for placing Participants on surveillance. Specifically, all broker-dealers from which DTC requires the submission of FOCUS or FOGS reports, and banks from which DTC requires the submission of CALL reports,¹ will be assigned a rating that is generated by entering financial data of the Participant into a matrix (the “Matrix”) developed by Risk Management staff.² Those Participants with a

¹ A small number of DTC member banks which submit CALL reports are not assigned a rating by being run through the Matrix. Because these banks do not make loans and do not take deposits as part of their business activities, their CALL reports do not contain information on asset quality and/or liquidity. Asset quality and liquidity are among the financial figures of each firm that are run through the Matrix. Since these figures would be zero for these banks if they were run through the Matrix, their Matrix results would not adequately portray their financial status. DTC has therefore concluded that these banks do not lend themselves to appropriate analysis via the Matrix approach. As discussed below, these Participants will be monitored using criteria deemed relevant by Risk Management staff.

² The Matrix is used by DTC and its affiliated clearing agencies, The Fixed Income Clearing Corporation (“FICC”) and the National Securities Clearing Corporation (“NSCC”). In order to run the Matrix, Risk

“weak” rating, or deemed to pose a relatively higher degree of risk to DTC, will be placed on an internal “watch list”, and monitored more closely. All Participants that do not fall into the categories of banks and broker-dealers mentioned above are not currently included in the Matrix process but are monitored by DTC’s credit risk staff using financial criteria deemed relevant by DTC.³

(ii) Procedures

Risk Management staff approaches its analysis of Participants in the following manner. First, as mentioned above, designated broker-dealers and banks are run through the Matrix and assigned a rating. Low-rated Participants are placed on the watch list. At this point, credit risk staff may downgrade a particular Participant’s score based on various qualitative factors. For example, one qualitative factor might be that the Participant in question received a qualified audit opinion on its annual audit. In order to protect DTC and its other Participants, it is important that credit risk staff maintain the discretion to downgrade a Participant’s rating on the Matrix and thus subject the Participant to closer monitoring. All rated Participants, including those on the watch list, are monitored monthly or quarterly, depending upon the Participant’s financial filing frequency, against basic minimum financial requirements and other parameters.

All broker-dealer Participants included on the watch list are monitored more closely. This means that they are also monitored for various parameter breaks which may include but are not limited to such things as a defined decline in excess net capital over a one month or three month period, a defined period loss, a defined aggregate indebtedness/net capital ratio, a defined net capital/aggregate debit items ratio, and a defined net capital/regulatory net capital ratio. All bank Participants included on the watch list are also monitored more closely for watch list parameter breaks which may include but are not limited to such things as a defined quarter loss, a defined decline in equity, a defined tier one leverage ratio, a defined tier one risk-based capital ratio, and a defined total risk-based capital ratio.

Management staff uses the financial data of each applicable DTC Participant and the financial data of each applicable member of FICC and NSCC. In this way, each applicable Participant of DTC is rated against other applicable members of FICC and NSCC.

³ DTC will continually evaluate this methodology and its effectiveness and make such changes as it deems prudent and practicable within such time frame as is determined to be appropriate by DTC. DTC will update the Commission staff periodically on its evaluations of the Matrix.

Risk Management staff will also monitor those Participants not included in the Matrix process using similar criteria.⁴ These criteria may include but are not limited to such things as failure to meet minimum financial requirements, experiencing a significant decrease in equity or a significant loss. This class of Participants may be placed on the watch list based on credit risk staff's analysis of this information.

DTC reserves the right to place a Participant on the Watch List for failure to comply with operational standards and requirements.⁵

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because it will improve DTC's Participant surveillance process.

4. Self-Regulatory Organization's Statement on Burden on Competition.

DTC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others.

Written comments relating to the proposed rule change have not yet been solicited or received. DTC will notify the Commission of any written comments received by DTC.

6. Extension of Time Period for Commission Action.

DTC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

⁴ Please note that this applies to Participants that are not included in the Matrix process, *i.e.*, the banks referred to in footnote 1, U.S. branches and agencies of foreign banks, foreign central securities depositories and government sponsored enterprises.

⁵ Participants are required to meet the standards of financial condition, operational capability and character set forth in DTC Rule 2.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable

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

The proposed rule change is based on similar rule filing proposals made by both National Securities Clearing Corporation and Fixed Income Clearing Corporation.

9. Exhibits

- Exhibit 1 - Notice of proposed rule change for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-DTC-2006-03)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by THE DEPOSITORY TRUST COMPANY ("DTC") relating to DTC's procedures regarding surveillance of participants.

Comments requested within ____ days after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, 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 by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

This rule filing does not require amendments to DTC's rules.

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. 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 such statements.

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

(i) The purpose of the proposed rule filing submitted by the Depository Trust Company ("DTC") is to amend DTC's procedures with respect to surveillance of Participants.

(a) Overview

DTC has developed certain criteria for placing Participants on surveillance. Specifically, all broker-dealers from which DTC requires the submission of FOCUS or FOGS reports, and banks from which DTC requires the submission of CALL reports,¹ will be assigned a rating that is generated by entering financial data of the Participant into a matrix (the “Matrix”) developed by Risk Management staff.² Those Participants with a “weak” rating, or deemed to pose a relatively higher degree of risk to DTC, will be placed on an internal “watch list”, and monitored more closely. All Participants that do not fall into the categories of banks and broker-dealers mentioned above are not currently included in the Matrix process but are monitored by DTC’s credit risk staff using financial criteria deemed relevant by DTC.³

(b) Procedures

Risk Management staff approaches its analysis of Participants in the following manner. First, as mentioned above, designated broker-dealers and banks are run through the Matrix and assigned a rating. Low-rated Participants are placed on the watch list. At this point, credit risk staff may downgrade a particular Participant’s score based on various qualitative factors. For example, one qualitative factor might be that the Participant in question received a qualified audit opinion on its annual audit. In order to protect DTC and its other Participants, it is important that credit risk staff maintain the discretion to downgrade a Participant’s rating on the Matrix and thus subject the Participant to closer monitoring. All rated Participants, including those on the watch list, are monitored monthly or quarterly, depending upon the Participant’s financial filing frequency, against basic minimum financial requirements and other parameters.

All broker-dealer Participants included on the watch list are monitored more closely. This means that they are also monitored for various parameter breaks which may include but are not limited to such things as a defined decline in excess net capital over a

¹ A small number of DTC member banks which submit CALL reports are not assigned a rating by being run through the Matrix. Because these banks do not make loans and do not take deposits as part of their business activities, their CALL reports do not contain information on asset quality and/or liquidity. Asset quality and liquidity are among the financial figures of each firm that are run through the Matrix. Since these figures would be zero for these banks if they were run through the Matrix, their Matrix results would not adequately portray their financial status. DTC has therefore concluded that these banks do not lend themselves to appropriate analysis via the Matrix approach. As discussed below, these Participants will be monitored using criteria deemed relevant by Risk Management staff.

² The Matrix is used by DTC and its affiliated clearing agencies, The Fixed Income Clearing Corporation (“FICC”) and the National Securities Clearing Corporation (“NSCC”). In order to run the Matrix, Risk Management staff uses the financial data of each applicable DTC Participant and the financial data of each applicable member of FICC and NSCC. In this way, each applicable Participant of DTC is rated against other applicable members of FICC and NSCC.

³ DTC will continually evaluate this methodology and its effectiveness and make such changes as it deems prudent and practicable within such time frame as is determined to be appropriate by DTC. DTC will update the Commission staff periodically on its evaluations of the Matrix.

one month or three month period, a defined period loss, a defined aggregate indebtedness/net capital ratio, a defined net capital/aggregate debit items ratio, and a defined net capital/regulatory net capital ratio. All bank Participants included on the watch list are also monitored more closely for watch list parameter breaks which may include but are not limited to such things as a defined quarter loss, a defined decline in equity, a defined tier one leverage ratio, a defined tier one risk-based capital ratio, and a defined total risk-based capital ratio.

Risk Management staff will also monitor those Participants not included in the Matrix process using similar criteria.⁴ These criteria may include but are not limited to such things as failure to meet minimum financial requirements, experiencing a significant decrease in equity or a significant loss. This class of Participants may be placed on the watch list based on credit risk staff's analysis of this information.

DTC reserves the right to place a Participant on the Watch List for failure to comply with operational standards and requirements.⁵

(ii) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because it will improve DTC's Participant surveillance process.

B. Self-Regulatory Organization's Statement on Burden on Competition.

DTC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others.

Written comments relating to the proposed rule change have not been solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve such proposed rule change, or

⁴ Please note that this applies to Participants that are not included in the Matrix process, *i.e.*, the banks referred to in footnote 1, U.S. branches and agencies of foreign banks, foreign central securities depositories and government sponsored enterprises.

⁵ Participants are required to meet the standards of financial condition, operational capability and character set forth in DTC Rule 2.

(B) institute proceedings to determine whether the proposed change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

- Electronic comments may be submitted by using the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or by sending an e-mail to rule-comment@sec.gov. Please include File No. [XX] on the subject line.
- Paper comments should be sent in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington D.C. 20549-9303.

All submissions should refer to File Number [XX]. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C §552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington D.C. 20549-9303. Copies of such filing also will be available for inspection and copying at the principal office of DTC. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the file number above and should be submitted within _____ days after the date of publication.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Jonathan G. Katz